



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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For distribution to relevant parties within your firm

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By-Laws and Regulations

Margin and Capital Requirements for Capital Share and Convertible and Exercisable Security Offsets – Regulations 100.4G, 100.4H and 100.4I

The Board of Directors of the Association has approved amendments to Regulations 100.4G, 100.4H and 100.4I relating to the margin and capital requirements for capital share and convertible and exercisable security offsets. These changes are effective from January 1, 2004 and are enclosed as Attachments #1, #2 and #3.

The main objective of the amendments is to expand the number of reduced margin offset strategies available to Members and their clients for offsets involving capital shares and convertible and exercisable securities. The previous offset rules for these types of securities, generally only permitted reduced margin offset strategies involving a long position in the capital shares or convertible or exercisable securities and a short position in the underlying securities. The new rules however, recognize reverse offset strategies – a long position in the underlying securities, offset with a short position in the capital shares or convertible or exercisable securities – as effective price hedges.

Kenneth A. Nason
Association Secretary

INVESTMENT DEALERS ASSOCIATION OF CANADA
CAPITAL AND MARGIN REQUIREMENTS FOR SPLIT SHARE COMPANY
ISSUED CAPITAL AND PREFERRED SECURITIES

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 100.4G(a) is hereby repealed and replaced as follows:

“(a) For the purposes of this Regulation 100.4G:

- (i) the term “capital share” means a share issued by a split share company which represents all or the substantial portion of the capital appreciation portion of the underlying common share(s);
- (ii) the term “capital share conversion loss” means any excess of the market value of the capital shares over the retraction value of the capital shares;
- (iii) the term “combined conversion loss” means any excess of the combined market value of the capital and preferred shares over the combined retraction value of the capital and preferred shares;
- (iv) the term “preferred share” means a share issued by a split share company which represents all or the substantial portion of the dividend portion of the underlying common share(s), and includes equity dividend shares of split share companies;
- (v) the term “retraction value” means:
 - (A) for capital shares:
 - (I) where the capital shares can be tendered to the split share company for retraction directly for the underlying common shares, at the option of the holder, the excess of the market value of the underlying common shares received over the retraction cash payment to be made when retraction of the capital shares takes place.
 - (II) where the capital shares cannot be tendered to the split share company for retraction directly for the underlying common shares at the option of the holder, the retraction cash payment to be received when retraction of the capital shares takes place.
 - (B) for capital shares and preferred shares in combination:
 - (I) where the capital shares and preferred shares can be tendered to the split share company for retraction directly for the underlying common shares, at the option of the holder, the market value of the underlying common shares received.
 - (II) where the capital shares and preferred shares cannot be tendered to the split share company for retraction directly for the underlying

common shares at the option of the holder, the retraction cash payment to be received when retraction of the capital and preferred shares takes place.

- (vi) the term “split share company” means a corporation formed for the sole purpose of acquiring underlying common shares and issuing its own capital shares based on all or the substantial portion of the capital appreciation portion and its own preferred shares based on all or the substantial portion of the dividend income portion of such underlying common shares.”

2. Regulation 100.4G(b) is hereby repealed and replaced as follows:

“(b) Long capital shares and short common shares

Where capital shares are carried long in an account and the account is also short an equivalent number of common shares, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the lesser of:
 - (A) the sum of:
 - (I) the capital share conversion loss, if any; and
 - (II) the normal capital required (credit required in the case of customer account positions) on the equivalent number of preferred shares;
 - and;
 - (B) the normal capital required (credit required in the case of customer account positions) on the underlying common shares;
 - and;
- (ii) where the capital shares cannot be tendered to the split share company for retraction directly for the underlying common shares at the option of the holder, 20% of the normal capital required (margin required in the case of customer account positions) on the underlying common shares.”

3. Regulation 100.4G(c) is hereby repealed and replaced as follows:

“(c) Long capital shares, long preferred shares and short common shares

Where both capital shares and an equivalent number of preferred shares are carried long in an account and the account is also short an equivalent number of common shares, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the lesser of:
 - (A) combined conversion loss, if any; and
 - (B) the normal capital required (margin required in the case of customer account positions) on the underlying common shares;and;
- (ii) where the capital and preferred shares cannot be tendered to the split share company for retraction directly for the underlying common share at the option

of the holder, 20% of the normal capital required (margin required in the case of customer account positions) on the underlying common shares.”

4. Regulation 100.4G(d) is hereby repealed and replaced as follows:

“(d) Long capital shares and short call option contracts

Where capital shares are carried long in an account and the account is also short an equivalent number of call option contracts expiring on or before the redemption date of the capital shares, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the lesser of:
 - (A) the normal capital required (credit required in the case of customer account positions) on the capital shares less, if any, the market value of the premium credit on the short call option, but cannot reduce the capital required to less than zero; and
 - (B) any excess of the market value of the underlying common shares over the aggregate exercise value of the Call Options;

and

- (ii) the capital share conversion loss, if any; and
- (iii) where the capital shares cannot be tendered to the split share company for retraction directly for the underlying common shares at the option of the holder, 20% of the normal capital required (margin required in the case of customer account positions) on the underlying common shares.”

5. New Regulation 100.4G (e) is hereby included as follows:

“(e) Long common shares and short capital shares

Where common shares are carried long in an account and the account is also short an equivalent number of capital shares, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the lesser of:
 - (A) the sum of:
 - (I) the capital share conversion loss, if any; and
 - (II) the normal capital required (margin required in the case of customer account positions) on the equivalent number of preferred shares; and
 - (B) the normal capital required (margin required in the case of customer account positions) on the underlying common shares.”

and;

- (ii) 40% of the normal capital required (margin required in the case of customer account positions) on the underlying common shares.”

6. New Regulation 100.4G(f) is hereby included as follows:

“(f) **Long common shares, short capital shares and short preferred shares**

Where common shares are carried long in an account and the account is also short both an equivalent number of capital shares and an equivalent number of preferred shares, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the lesser of:
 - (A) combined conversion loss, if any; and
 - (B) the normal capital required (margin required in the case of customer account positions) on the underlying common shares;and;
- (ii) where the capital and preferred shares cannot be tendered to the split share company for retraction directly for the underlying common share at the option of the holder, 40% of the normal capital required (margin required in the case of customer account positions) on the underlying common shares.”

PASSED AND ENACTED BY THE Board of Directors this 23rd day of October 2002, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
CAPITAL AND MARGIN REQUIREMENTS FOR CONVERTIBLE SECURITIES

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 100.4H is hereby repealed and replaced as follows:

“100.4H. Convertible Securities

- (a) For the purposes of this Regulation 100.4H:
 - (i) “conversion loss” means any excess of the market value of the convertible securities over the market value of the equivalent number of underlying securities.
 - (ii) “convertible security” means a convertible security, exchangeable security or any other security that entitles the holder to acquire another security, the underlying security, upon exercising a conversion or exchange feature.
 - (iii) a security that is “currently convertible” means a security that is either:
 - (A) convertible into another security, the underlying security, either currently or within 20 business days, provided all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with the merger, acquisition, spin-off or other security related reorganization have been received; or
 - (B) convertible into another security, the underlying security, after the expiry of a specific period, and the Member or customer has entered into a term securities borrowing agreement. The agreement must be a written, legally enforceable agreement enabling the Member or customer to borrow the underlying securities for the entire period from the current date until the expiry of the specific period until conversion.
 - (iv) “underlying security” means the security, which is received upon exercising the conversion or exchange feature of a convertible security.

(b) Long convertible securities considered “currently convertible” and short underlying securities

Where convertible securities are held long in an account and such securities are currently convertible and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the conversion loss, if any; and
- (ii) where the convertible security cannot be converted directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of customer account positions) on the underlying securities.

(c) **Long convertible securities not considered “currently convertible” and short underlying securities**

Where convertible securities are held long in an account and such securities are not currently convertible and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the conversion loss, if any; and
- (ii) 20% of the normal capital required (margin required in the case of customer account positions) on the underlying securities, to cover the sell-out risk associated with holding convertible securities not considered to be “currently convertible”; and
- (iii) where the convertible security cannot be converted directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of customer account positions) on the underlying securities.

(d) **Short convertible securities and long underlying securities**

Where convertible securities are held short in an account and the account is also long an equivalent number of underlying securities, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) the conversion loss, if any; and
- (ii) 40% of the normal capital required (margin required in the case of customer account positions) on the underlying securities.

(e) **Long “Oldco securities” and short “Newco securities” relating to an amalgamation, acquisition, spin-off or any other securities related reorganization transaction**

- (i) For the purposes of this paragraph 100.4H(e):
 - (A) “Newco securities” means securities of a successor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.
 - (B) “Oldco securities” means securities of a predecessor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.
- (ii) Where, pursuant to a securities related reorganization involving predecessor and successor issuers, Oldco securities are held long in an account, the account is also short an equivalent number of Newco securities, and the conditions set out in paragraph 100.4H(e)(iii) are met, the capital and margin requirements for Member firm and customer accounts shall be the excess of the combined market value of the Oldco securities over the combined market value of the Newco securities, if any.
- (iii) The offset described in paragraph 100.4H(e)(ii) may be taken where all legal requirements have been met and all regulatory, competition bureau and court

approvals to proceed with the merger, acquisition, spin-off or other security related reorganization have been received and where the Oldco securities will be cancelled and replaced by an equivalent number of Newco securities within 20 business days.”

PASSED AND ENACTED BY THE Board of Directors this 23rd day of October 2002, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
CAPITAL AND MARGIN REQUIREMENTS FOR WARRANTS, RIGHTS AND
OTHER SECURITIES

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 100.4I is hereby repealed and replaced as follows:

“100.4I. Warrants, Rights, Instalment Receipts etc.

- (a) For the purposes of this Regulation 100.4I:
- (i) “exercise loss” means any excess of combined sum of the market value of the exercisable securities and the exercise or subscription payment, over the market value of the equivalent number of underlying securities.
 - (ii) “exercisable security” means a warrant, right, installment receipt or any other security that entitles the holder to acquire another security, the underlying security, upon making an exercise or subscription payment.
 - (iii) a security that is “currently exercisable” means a security that is either:
 - (A) exercisable into another security, the underlying security, either currently or within 20 business days, provided all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with exercising have been received; or
 - (B) exercisable into another security, the underlying security, on a future date, and the Member or customer has entered into a term securities borrowing agreement. The agreement must be a written, legally enforceable agreement enabling the Member or customer to borrow the underlying securities for the entire period from the current date until the exercise or subscription date.
 - (iv) “underlying security” means the security, which is received upon invoking the exercise feature of an exercisable security.
- (b) **Long exercisable securities considered “currently exercisable” and short underlying securities**

Where exercisable securities are held long in an account and such securities are currently exercisable and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) in the case of customer account positions, the amount of the exercise or subscription payment; and
- (ii) the exercise loss, if any; and
- (iii) where the exercisable security cannot be exercised directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of customer account positions) on the underlying securities.

(c) **Long exercisable securities not considered “currently exercisable” and short underlying securities**

Where exercisable securities are held long in an account and such securities are not currently exercisable and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) in the case of customer account positions, the amount of the exercise or subscription payment; and
- (ii) the exercise loss, if any; and
- (iii) 20% of the normal capital required (margin required in the case of customer account positions) on the underlying securities, to cover the sell-out risk associated with holding exercisable securities not considered to be “currently exercisable”; and
- (iv) where the exercisable security cannot be converted directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of customer account positions) on the underlying securities.

(d) **Short exercisable securities and long underlying securities**

Where exercisable securities are held short in an account and the account is also long an equivalent number of underlying securities, the capital and margin requirements, for Member firm and customer account positions respectively, shall be equal to the sum of:

- (i) in the case of customer account positions, the amount of the exercise or subscription payment; and
- (ii) the exercise loss, if any; and
- (iii) 40% of the normal capital required (margin required in the case of customer account positions) on the underlying securities.”

2. Regulation 100.4J is hereby repealed.

PASSED AND ENACTED BY THE Board of Directors this 23rd day of October 2002, to be effective on a date to be determined by Association staff.