



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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By-Laws and Regulations

Amendments to IDA Regulation 100.4C and 100.4K Relating Offset Positions in Debt Securities and Related Futures Contracts

The Board of Directors of the Association has approved amendments to IDA Regulation 100.4C and 100.4K Relating Offset Positions in Canadian Debt Securities and Related Futures Contracts. The amendments are effective immediately, a copy of which is enclosed as Attachment #1.

The amendments are intended to correct the over-conservative margin and capital requirements for certain offset positions in debt securities without sacrificing the objective of covering the market risks exposed by these positions. The amendments to Regulation 100.4C recognize, for regulatory purpose, the market risk reduction of Member firm offset positions in debt securities of different issuers and of different maturity bands by expanding the number of permissible offsets. The accompanying amendments to Regulation 100.4K keep the offsets available to Government of Canada bond futures positions consistent with those available to Government of Canada bonds.

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INVESTMENT DEALERS ASSOCIATION OF CANADA
AMENDMENTS TO REGULATIONS 100.4C AND 100.4K RELATING OFFSET
POSITIONS IN DEBT SECURITIES AND RELATED FUTURES CONTRACTS

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. Amending Regulation 100.4C by adding the phrase “the total margin required in respect of both positions shall be the greater of the margin required on the long or short positions” at the end of the first paragraph.
2. Amending Regulation 100.4C(a) by deleting the words “Canada and” immediately preceding the words “U.S. Treasury only”.
3. Amending Regulation 100.4C by deleting the following phrase immediately after section (h).
 “the margin required in respect of both positions shall be greater of the margin required on the long or short position”.
4. Amending Regulation 100.4C by inserting the following text after section (h):
 “Where a Member has a short and long position in the following groups of securities (identified by reference to the paragraphs and clauses of Regulation 100.2) the total margin required in respect of both positions shall be 50% of the greater of the margin required on the long or short position:

<i>Long (Short)</i>		<i>Short (Long)</i>
(i) 100.2(a)(i) (Canada only)	and	100.2(a)(i) (Canada of different maturity bands)
(j) 100.2(a)(i) (Canada only)	and	100.2(a)(ii) (Province of Canada of same or different maturity bands)
(k) 100.2(a)(ii) (Province of Canada only)	and	100.2(a)(ii) (Province of Canada only of same or different maturity bands)
(l) 100.2(a)(i) (Canada only)	and	100.2(a)(iii) (Canada municipal only)
(m) 100.2(a)(ii) (Province of Canada only)	and	100.2(a)(iii) (Canada municipal only)”
5. Amending Regulation 100.4C by adding the following words in subsection (iii) after the word “securities”, “offsets described in items (i) to (k) can be of different maturity bands, all other” and deleting the word “in” immediately preceding the words “offsetting positions”.
6. Amending Regulation 100.4C by adding the word “; and” at the end of subsection (iv).
7. Amending Regulation 100.4C by adding the following new subsection (v) “securities offsets described in items (l) and (m), Canada Municipal will only be eligible for offset if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record.”.

8. Amending Regulation 100.4K by adding the word “Contracts and Security Combinations” in the heading.
 9. Amending Regulation 100.4K by replacing the words “where a Member” with the phrase “Where a Member holds offset positions in Government of Canada notional bond futures contracts (including future purchase and sale commitments) and securities, described in paragraphs (a) to (e), the margin requirement for both positions shall be as follows:”.
 10. Amending Regulation 100.4K(a) by deleting the first word “Holds” and “5 year or 10 year” immediately preceding the words “Government of Canada” and replacing the words “maturing 3 to 11 years” after the words “Regulation 100.2(a)(i) with the words “Canada only and of same maturity band”.
 11. Amending Regulation 100.4K by inserting the following text after section (a):

“(b) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(i) Canada only of different maturity bands, the two positions may be offset and the required margin shall be the 50% of the greater of the margin required on the long or short position.”
 12. Amending Regulation 100.4K(b) by renumbering it to 100.4K(c), deleting the first word “Holds” and “5 year or 10 year” immediately preceding the words “Government of Canada” and replacing the words “or Regulation 100.2(a)(v) maturing 3 to 11 years” with the words “Province of Canada only maturing within the same or different maturity bands” and inserting the words “50% of” immediately preceding the words “the greater of”.
 13. Amending Regulation 100.4K by inserting the following text after section (c):

“(d) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(iii) Canada Municipal only maturing within the same maturity band, the margin requirement in respect of both positions shall be 50% of the greater of the margin required on the long or short position.

(e) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(v) Corporate maturing within the same maturity band, the margin requirement in respect of both positions shall be the greater of the margin required on the long or short position.
- provided the foregoing offset may only be determined on the basis that:
- i) securities in offsetting positions must be denominated in the same currency;
 - ii) securities described in Regulation 100.2(a)(iii) Canada Municipal will only be eligible for offset if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody’s Investors Service or Standard & Poor’s Bond Record;
 - iii) securities described in Regulation 100.2(a)(iv) Corporate will only be eligible for offset if they are not convertible and have a single A or higher rating by any of

Attachment #1

Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record; and

- iv) the market value of the offsetting positions is equal and no offset is permitted in respect of the market value of the short (or long) position which is in excess of the market value of the long (or short) position.”

PASSED AND ENACTED BY THE Board of Directors this 19th day of January 2005, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
AMENDMENTS TO REGULATIONS 100.4C AND 100.4K RELATING OFFSET
POSITIONS IN DEBT SECURITIES AND RELATED FUTURES CONTRACTS

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100.4C. Debt Securities

Where a Member has a short and long position in the following groups of securities (identified by reference to the paragraphs and clauses of Regulation 100.2) the total margin required in respect of both positions shall be the greater of the margin required on the long or short position:

<i>Long (Short)</i>	and	<i>Short (Long)</i>
(a) 100.2(a)(i) (U.S. Treasury only)		100.2(a)(ii) (Province of Canada only)
(b) 100.2(a)(i) (Canada and U.S. Treasury only)		100.2(a)(iii) (Canada municipal only)
(c) 100.2(a)(i) (Canada only)		100.2(a)(i) (U.S. Treasury only)
(d) 100.2(a)(i) (Canada and U.S. Treasury only)		100.2(a)(v) (corporate)
(e) 100.2(a)(ii) (Province of Canada only)		100.2(a)(iii) (Canada municipal only)
(f) 100.2(a)(ii) (Province of Canada only)		100.2(a)(v) (corporate)
(g) 100.2(a)(v) (corporate)		100.2(a)(v) (corporate) of the same issuer
(h) 100.2(b) (Canadian chartered bank acceptances only)		BAX futures contract

Where a Member has a short and long position in the following groups of securities (identified by reference to the paragraphs and clauses of Regulation 100.2) the total margin required in respect of both positions shall be 50% of the greater of the margin required on the long or short position:

<i>Long (Short)</i>	and	<i>Short (Long)</i>
<u>(i) 100.2(a)(i) (Canada only)</u>		100.2(a)(i) (Canada of different maturity bands)
<u>(j) 100.2(a)(i) (Canada only)</u>		100.2(a)(ii) (Province of Canada only of <u>same or</u> different maturity bands)
<u>(k) 100.2(a)(ii) (Province of Canada only)</u>		100.2(a)(ii) (Province of Canada only of <u>same or</u> different maturity bands)
<u>(l) 100.2(a)(i) (Canada only)</u>		100.2(a)(iii) (Canada municipal only)
<u>(m) 100.2(a)(ii) (Province of Canada only)</u>		100.2(a)(iii) (Canada municipal only)

provided the foregoing offset may only be determined on the basis that:

- (i) securities described in Regulation 100.2(a)(v) (corporate) and 100.2(b) (bank paper) will only be eligible for offset if they are not convertible and have a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;
- (ii) securities in offsetting positions must be denominated in the same currency;
- (iii) securities offsets described in items (i) to (k) can be of different maturity bands, all other offsetting positions must mature within the same periods referred to in Regulation 100.2 for the purpose of determining margin rates;
- (iv) the market value of the offsetting positions is equal and no offset shall be permitted in respect of the market value of the short (or long) position which is in excess of the market

value of the long (or short) position; and

(v) ___ securities offsets described in items (l) and (m), Canada Municipal will only be eligible for offset if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record.

For the purposes of this Regulation 100.4C, securities described in Regulation 100.2(b) (bank paper) are eligible for the same offsets set out above as securities described in Regulation 100.2(a)(v) (corporate).

For the purposes of this Regulation 100.4C, the term "BAX futures contracts" shall mean the three-month Canadian bankers acceptance futures contracts that trade on the Bourse de Montréal under the "BAX" trading symbol.

100.4K. Government of Canada Bond Futures Contracts and Security Combinations Where a Member holds offset positions in Government of Canada notional bond futures contracts (including future purchase and sale commitments) and securities, described in paragraphs (a) to (e), the margin requirement for both positions shall be as follows:

- (a) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(i) Canada only and of same maturity band, the two positions may be offset and the required margin computed in respect to the net long or net short position only.
- (b) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(i) Canada only of different maturity bands, the two positions may be offset and the required margin shall be the 50% of the greater of the margin required on the long or short position.
- (c) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(ii) Province of Canada only maturing within the same or different maturity bands, the margin requirement in respect of both positions shall be 50% of the greater of the margin required on the long or short position.
- (d) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(iii) Canada Municipal only maturing within the same maturity band, the margin requirement in respect of both positions shall be 50% of the greater of the margin required on the long or short position.
- (e) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(v) Corporate maturing within the same maturity band, the margin requirement in respect of both positions shall be the greater of the margin required on the long or short position.

provided the foregoing offset may only be determined on the basis that:

- i) ___ securities in offsetting positions must be denominated in the same currency;

ii) _____ securities described in Regulation 100.2(a)(iii) Canada Municipal will only be eligible for offset if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;

iii) _____ securities described in Regulation 100.2(a)(iv) Corporate will only be eligible for offset if they are not convertible and have a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record; and

iv) _____ the market value of the offsetting positions is equal and no offset is permitted in respect of the market value of the short (or long) position which is in excess of the market value of the long (or short) position.