

MEMBER REGULATION



INVESTMENT DEALERS
ASSOCIATION OF CANADA

notice



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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MR0218

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ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Distribute internally to:

- Corporate Finance
- Credit
- Institutional
- Internal Audit
- Legal & Compliance
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Acceptable Over-Collateralization Rates for Financing Transactions with Acceptable Counterparties

The list of acceptable over-collateralization rates for financing transactions with acceptable counterparties is attached and should be read in conjunction with “Bulletin #3112 – Amendments to the Capital Requirements for Financing Transactions – Form 1, Schedules 1, 7 and 7A”, which was issued on February 4, 2003.

As mentioned in Bulletin #3112, the over-collateralization rates apply to financing transactions with acceptable counterparties, and include all transactions whose balances are reportable on Schedules 1 and 7 of Form 1, the Joint Regulatory Financial Questionnaire and Report. In addition, the acceptable over-collateralization rates are based on the acceptable counterparties’ existing legislative and or regulatory requirements – including the requirements of the Office of the Superintendent of Financial Institutions Canada, National Instrument 81-102 Mutual Funds and the Technical Committee of the International Organization of Securities Commissions.

The acceptable over-collateralization rates are the maximum collateralization rates that Members can use in their financing transactions with acceptable counterparties without incurring a capital charge for not dealing on a value for value basis. In conclusion, the list as presented in Attachment #1 is organized so that each category of acceptable counterparties corresponds to how each appears in the General Notes and Definitions of Form 1.

**LIST OF ACCEPTABLE OVER-COLLATERALIZATION RATES
FOR FINANCING TRANSACTIONS WITH ACCEPTABLE COUNTERPARTIES**

ACCEPTABLE COUNTERPARTIES	ACCEPTABLE OVER-COLLATERALIZATION RATES
1. Canadian banks, Quebec savings banks, trust companies and loan companies	105% ¹
2. Credit and central credit unions and regional caisses populaires	105% ¹
3. Life insurance, and property and casualty companies	105% ¹
4. Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents	100% ²
5. Mutual Funds	102% ³
6. Corporations (other than Regulated Entities)	100% ²
7. Trusts and Limited Partnerships	100% ²
8. Pension Funds	105% ¹
9. Foreign banks and trust companies	102% ⁴
10. Foreign life insurance, and property and casualty companies	102% ⁴
11. Federal governments of foreign countries, which do not qualify as Basle Accord Countries	100% ²

¹ Pursuant to the Securities Lending Guidelines from the Office of the Superintendent of Financial Institutions Canada, the over-collateralization rate is 105%.

² These counterparties are either not subject to regulation or the regulators do not have any specific over-collateralization requirements and therefore, there is no capital relief for over-collateralization.

³ Pursuant to National Instrument 81-102 Mutual Funds, which was implemented in May 2001, the over-collateralization rate is 102%.

⁴ These institutions must be in Basle Accord countries to qualify as “acceptable counterparties”. While requirements in each country vary (i.e., the U.S. and U.K. requirements range from 102% to 110%) every country requires at least 102% over-collateralization. Therefore, to be conservative, the over-collateralization rate is set at 102%.