

MEMBER REGULATION



INVESTMENT DEALERS
ASSOCIATION OF CANADA

notice



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

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Average Price Accounts – Margin Requirements

This notice is a revised version of Compliance Interpretation Bulletin C-065. Revisions have been made to clarify the margin treatment of average price accounts when a member is accumulating securities for a non-contingent order. The notice also addresses questions concerning confirmations to clients regarding the use of average price or accumulation accounts where the member accumulates securities in inventory in order to give the client a confirmation at one average price.

Confirming the Unwinding Trade to the Client

Questions have arisen whether the confirmation to the client is to be "as of" the dates of each of the trades. As the client has requested one confirmation only, a practice has developed among some members to confirm as of the date of the unwinding transfer from the average price account to the client account. It may appear that the trade (at the average price) is occurring outside the (then) current market.

It is preferable to give clients a confirmation showing each individual trade. However, it is acceptable to give a client a confirmation only as of the date of the transfer to the client account provided that the client has requested a single confirmation.

In either case, members must keep records of each individual trade and of the transfer. These must be made available to the client and to regulatory authorities on request.

Margin Treatment Contingent Order

If the member is accumulating securities based on an indication of interest from the client or an order with a contingency that has not occurred (e.g., an "all or none" order), then the client is under no obligation to purchase the security. In this case, the member is at risk while taking on the position (i.e., the client is not the beneficial owner of the security while in inventory) and must margin the position as inventory (on a trade date basis) until the order is completed and contracted to the client.

Margin Treatment during Accumulation

If the member is accumulating securities based on a non-contingent order in which the client will accept all purchase amounts up to the full amount of his/her order (e.g., any partial order), then the client is the beneficial owner of the security while being accumulated. In this case, all trade date positions in the average price account shall be margined¹ commencing on the regular settlement date of the first accumulation amount purchased. Margin shall continue to apply on all trade date positions until the accumulated position held on behalf of the customer in the average account is flattened by processing a ticket at the average price and the trade confirmation is issued

Margin Treatment Once Contracted out to Customer

On the date the trade confirmation has been issued to the customer (trade date), customer margin will be determined in accordance with the member's stated regulatory policy for margining customer accounts (i.e. on either a trade date or settlement date basis).

¹ Using the relevant customer account margin requirements for the customer who is either an acceptable institution, acceptable counterparty, regulated entity or other counterparty.