MEMBER REGULATION

notice

INVESTMENT DEALERS ASSOCIATION OF CANADA

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

Contact:
R. Corner: (416) 943-6908 - rcorner@ida.ca

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ATTENTION:
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REGULAR SETTLEMENT DATE TO BE USED FOR CERTAIN FOREIGN EXCHANGE HEDGE TRADES

Background

The Notes and Instructions Form 1 require Member firms to provide margin for trades with either Acceptable Counterparties or Regulated Entities on trade equity deficiency basis, commencing on the regular settlement date of the trade. IDA Regulation 800.27 sets out “regular settlement dates” for trades involving certain debt and equity securities as follows:

Security type	Regular settlement date
▪ Government of Canada treasury bills	Trade date (T) [Regulation 800.27(a)]
▪ Government of Canada bonds (other than treasury bills) having an unexpired term to maturity of three years or less	Two clearing days after trade date (T+2) [Regulation 800.27(b)]
▪ Government of Canada bonds (other than treasury bills) having an unexpired term to maturity of longer than three years ▪ All provincial, municipal, corporation and other bonds or debentures ▪ All stock ▪ All other certificates of indebtedness	Three clearing days after trade date (T+3) [Regulation 800.27(c)]

The regular settlement date for foreign exchange spot trades is not specified in the IDA rules. Most foreign spot trades settle on either trade date (T) or one clearing day after trade date (T+1).

Issue

When a Member firm executes an unhedged trade in a foreign currency denominated security they assume on trade date:

- security specific market risk; and
- foreign exchange risk, since the trade must be settled in a currency other than Canadian dollars.

To address the foreign exchange risk, many Member firms enter into a foreign exchange spot trade to lock-in the Canadian dollar amount of the transaction. In most cases the trade and settlement dates for the foreign exchange spot trade will be the same as those of security transaction being hedged (i.e., T and T+3 respectively for a foreign exchange hedge of a stock trade). **The question that arises is what is the "regular settlement date" for these foreign exchange hedge trades? T+1, the settlement date for most foreign exchange spot trades or, the regular settlement date for the security transaction being hedged (i.e., T+3 for a foreign exchange hedge of a stock trade)?**

Guidance

In the absence of a specifically defined regular settlement date in the IDA rules for foreign exchange spot trades, it has been determined that the "regular settlement date" for foreign exchange spot trades shall be:

(a) T+3, where the trade has been entered into to hedge the foreign exchange risk associated with a trade in a foreign currency denominated security that is listed in IDA Regulation 800.27(c) and the trade date for the foreign exchange spot trade is the same as the trade date of the foreign currency denominated security;

(b) T+2, where the trade has been entered into to hedge the foreign exchange risk associated with a trade in a foreign currency denominated security that is listed in IDA Regulation 800.27(b) and the trade date for the foreign exchange spot trade is the same as the trade date of the foreign currency denominated security;

(b) T+1, in all other instances.

Subsequent to this "regular settlement date", where the counterparty to the foreign exchange spot trade is either an Acceptable Counterparty or a Regulated Entity, the trade must be margined on an equity deficiency[1] basis, in accordance with the Notes and Instructions Form 1.

[1] "Equity deficiency" is the difference between (a) the net market value of all settlement date security positions in the customer's account(s) and (b) the net money balance on a settlement date basis in the same account(s).