MEMBER REGULATION

notice

INVESTMENT DEALERS ASSOCIATION OF CANADA

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Please distribute internally to:
Credit
Internal Audit
Legal and Compliance
Operations
Regulatory Accounting
Retail
Senior Management
Trading Desk

Contact:

Richard J. Corner
Vice President, Regulatory Policy
416.943.6908
rcorner@ida.ca

MR0491

September 12, 2007

Equity Margin Project – Phase 1 of rule amendment implementation

This Member Regulation Notice provides further interpretive details of the amendments to IDA Regulation 100 that will be implemented effective September 17, 2007. The remainder of this notice lists each amendment and provides interpretive guidance as to the application of each amended requirement.

AMENDMENTS TO REGULATION 100.2(a)(v)

IDA Regulation 100.2(a)(v) sets out capital and margin (collectively margin) requirements for certain corporate debt instruments. Included in these requirements are rules that address the margin requirements for convertible debt instruments and convertible residual debt instruments. These rules are being amended to:

1. Conform the margin requirements for convertible debt instruments with the margin requirements that would apply to an equivalent position in the underlying security; and

2. Limit the margin requirements for convertible residual debt instruments.

Margin requirements for convertible debt instruments

The existing rules for convertible debt instruments attempt to take into account the risk associated with the underlying security in arriving at an overall margin requirement. Specifically, the existing rules require that either 25% or 50% of a convertible debt instrument's market value excess over par value be provided (subject to a minimum requirement) when the underlying security has a margin rate of either 25% or 50%, respectively.

The new rules for convertible debt instruments consider situations where the underlying security margin rate is a rate other than 25% or 50% and ensure that where a convertible debt instrument is trading “deep in-the-money” that the loan value extended to the convertible debt instrument is the same as the loan value that would be extended to the underlying security position. The new rules are set out in Note 1 to IDA Regulation 100.2(a)(v).

Margin requirements for convertible residual debt instruments

The new rules also clarify that the loan value extended to convertible residual debt instruments shall be no lower than the loan value extended to the underlying security. The margin requirements for convertible residual debt instruments have therefore been amended to ensure this is the case.

AMENDMENTS TO REGULATION 100.2(a)(xi)

Because of the amendments made to IDA Regulation 100.2(a)(v), conforming amendments were also made to IDA Regulation 100.2(a)(xi). This will result in no changes to the calculation of the margin required for stripped coupons and residual debt instruments.

AMENDMENTS TO REGULATIONS 100.2(f)(i) AND 100.2(f)(ii)

Existing IDA Regulation 100.2(f)(i) specifically denies loan value to securities of companies designated as Capital Pool Companies on the TSX Venture Exchange and securities of companies classified as Tier 3 or Inactive Tier 2 issuers on the TSX Venture Exchange. It also sets out the existing traded price per share based margin requirements for listed securities (other than bonds and debentures) on: (1) any recognized stock exchange in Canada or the United States, (2) the “Tokyo Stock Exchange First Section”, and (3) the “stock list of the London Stock Exchange”.

The new rules specifically:

1. Deny margin eligibility to all listed securities “whose listing requirements do not include adequate minimum pre-tax profit, net tangible asset and working capital requirements” [IDA Regulation 100.2(f)(i)];
2. Permit margin eligibility for a larger group of securities listed on foreign exchanges outside of Canada and the United States (beyond those securities listed on the “Tokyo Stock Exchange First Section” and on the “stock list of the London Stock Exchange”) [IDA Regulation 100.2(f)(ii)]; and
3. Reflect clarification changes throughout Regulation 100.2(f).

Listed securities not margin eligible [IDA Regulation 100.2(f)(i)]

Below is a list of market tiers whose issues are not margin eligible:

- securities of companies listed on the Canadian Trading and Quotation System Inc.
- Capital Pool Companies on the TSX Venture Exchange
- securities of companies classified as Inactive Tier 2 issuers on the TSX Venture Exchange
- securities of companies classified as Tier 3 issuers on the TSX Venture Exchange

This list includes all previous market tiers whose issues were specifically listed as not being margin eligible and all other market tiers that IDA staff have determined do not have “adequate minimum pre-tax profit, net tangible asset and working capital requirements”. This list will be updated as required by IDA staff.

Margin eligibility for securities listed on foreign exchanges [IDA Regulation 100.2(f)(ii)]

Below is a list of foreign market indices whose issues will now be eligible for margin at a margin rate of 50% on the effective date of these amendments:

- **AEX –** index name is derived from Amsterdam Exchange index and it is a stock market index composed of the 25 largest companies that trade on Euronext Amsterdam
- **CAC 40** – index name is derived from Paris Bourse's early automation system Cotation Assistée en Continu (*Continuous Assisted Quotation*) and it is a stock market index composed of the 40 most significant issues among the 100 largest companies that trade on Euronext Paris.
- **DAX 30** – index name is derived from Deutsche Aktien Xchange 30 and it is a stock market index consisting of the 30 largest companies trading on the Frankfurt Stock Exchange.
- **FTSE 100** – index name is derived from Financial Times Stock Exchange 100 and it is a stock market index of the 100 largest companies trading on the London Stock Exchange.
- **Hang Seng** – is a stock market index currently comprised of the 39 largest companies trading on the Hong Kong Stock Exchange.
- **S&P/ASX 50** – is a stock market index comprised of the 50 largest companies trading on the Australian Stock Exchange.
- **TOPIX 150 -** is a stock market index comprised of the 150 largest companies trading on the Tokyo Stock Exchange.

This foreign market index list will be updated as required by IDA staff. Also, included for your information as Attachment #1 is a list of the constituent company issues for each of the above indices prepared as at August 10, 2007. This list is being provided for information purposes only. To properly determine which foreign listed equity issues are eligible for margin members, must consult on an ongoing basis the constituent company issues for each of the indices listed above.

Clarification changes [IDA Regulation 100.2(f)]

In addition to the major changes discussed above, the revised version of IDA Regulation 100.2(f):

- separately details the existing margin requirements for bank issued warrants [IDA Regulation 100.2(f)(iii)]; and
- significantly simplifies the wording of the existing margin requirements for positions in index participation units and qualifying baskets of index securities [IDA Regulation 100.2(f)(vii)].

AMENDMENTS TO REGULATION 100.12

Existing IDA Regulation 100.12 details specific margin requirements for certain Member firm proprietary inventory security positions. Among the security positions addressed are floating rate preferred shares and convertible floating rate preferred shares.

The existing rules for floating rate preferred shares set the margin rate at either 10% or 25% depending on whether or not a related junior issue qualifies for a 25% margin rate.

The existing rules for convertible floating rate preferred shares attempt to take into account the risk associated with the underlying security in arriving at an overall margin requirement. Specifically, the existing rules require that either 25% or 50% of a convertible floating rate preferred share's market value excess over par value be provided when the underlying security has a margin rate of either 25% or 50%, respectively.

The new rules for floating rate preferred shares and convertible floating rate preferred shares consider situations where the related junior issue or underlying security margin rate is a rate other than 25% or 50% and ensure that where a convertible floating rate preferred share is trading "deep in-the-money" that the loan value extended to the preferred share is the same as the loan value that would be extended for the underlying security position. The new rules are set out in IDA Regulation 100.12(c).

IDA By-laws and Regulations referenced in this Notice:

•