



INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AMENDMENTS TO FORM 1, FOR USE IN, AND CONSISTENCY, WITH THE PLAIN LANGUAGE DEALER MEMBER RULES RULE BOOK

**BLACK-LINE COMPARISON OF THE AMENDMENTS TO SHOW THE NON-MATERIAL REVISIONS TO THE PREVIOUSLY PUBLISHED
PROPOSED AMENDMENTS**

1. The black-line comparison of the Amendments to show the non-material revisions to the previously published Proposed Amendments is as follows:

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IIROC Notice 19-0146 – Notice of Approval/Implementation – Dealer Member Rules – Amendments to Form 1 for use in, and consistency, with the Plain Language Dealer Member Rules Rule Book

FORM 1 - GENERAL NOTES AND DEFINITIONS

GENERAL NOTES:

- Each Dealer Member must comply with the requirements in Form 1 as approved and amended from time to time by the board of directors of the Investment Industry Regulatory Organization of Canada (the Corporation).

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the Corporation.

Each Dealer Member must complete and file all of these statements and schedules.

- The following are Form 1 IFRS departures as prescribed by the Corporation:

| | Prescribed IFRS departure |
|---|---|
| Client and broker trading balances | For client and broker trading balances, the Corporation allows the netting of receivables from and payables to the same counterparty. A Dealer Member may choose to report client and broker trading balances in accordance with IFRS. |
| Preferred shares | Preferred shares issued by the Dealer Member and approved by the Corporation are classified as shareholders' capital. |
| Presentation | Statements A and E contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. For Statement E, the profit (loss) for the year on discontinued operations is presented on a pre-tax basis (as opposed to after-tax). In addition, specific balances may be classified or presented on Statements A, E and F in a manner that differs from IFRS requirements. The General Notes and Definitions, and the applicable Notes and Instructions to the Statements of Form 1, should be followed in those instances where departures from IFRS presentation exist. Statements B, C, and D are supplementary financial information, which are not statements contemplated under IFRS. |
| Separate financial statements on a non-consolidated basis | Consolidation of subsidiaries is not permitted for regulatory reporting purposes, except for related companies that meet the definition of a "related company" in Dealer Member Rule 1 and the Corporation has approved the consolidation. Because Statement E only reflects the operational results of the Dealer Member, a Dealer Member must not include the income (loss) of an investment accounted for by the equity method. |
| Statement of cash flow | A statement of cash flow is not required as part of Form 1. |
| Subordinated loan | For regulatory reporting purposes, a subordinated loan must be reported at face value. Discounting of the subordinated loan amount is not permitted. |
| Valuation | The "market value of securities" definition remains unchanged from the pre-IFRS changeover Joint Regulatory Financial Questionnaire and Report. |

- The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

| | Prescribed accounting treatment |
|---|--|
| Hedge accounting | Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Dealer Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time. |
| Securities owned and sold short as held-for-trading | A Dealer Member must categorize all inventory positions as held-for-trading financial instruments. These security positions must be marked-to-market. Because the Corporation does not permit the use of the available for sale and held-to-maturity categories, a Dealer Member must not include other comprehensive income (OCI) and will not |

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| | |
|---------------------------|---|
| | have a corresponding reserve account relating to marking-to-market available for sale security positions. |
| Valuation of a subsidiary | A Dealer Member must value subsidiaries at cost. |

4. These statements and schedules are prepared in accordance with the Dealer Member rules.
5. For purposes of these statements and schedules, the accounts of related companies that meet the definition of a “related company” in Dealer Member Rule 1 may be consolidated.
6. For the purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.
7. Dealer Members may determine margin deficiencies for clients, brokers and dealers on either a settlement date basis or trade date basis. Dealer Members may also determine margin deficiencies for *acceptable institutions*, *acceptable counterparties*, regulated entities and investment counselors’ accounts as a block on either a settlement date basis or trade date basis and the remaining clients, brokers and dealer accounts on the other basis. In each case, Dealer Members must do so for all such accounts and consistently from period to period.
8. Comparative figures on all statements are only required at the audit date.
9. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
10. Supporting details should be provided – as required - showing breakdown of any significant amounts that have not been clearly described on the statements and schedules.
11. **Mandatory security counts.** All securities except those held in segregation or safekeeping shall be counted once a month, or monthly on a cyclical basis. Those held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.

DEFINITIONS:

~~(a)~~ — “**acceptable clearing corporation**” means any clearing agency operating a central system for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the clearing agency’s powers of compliance and enforcement over its members or participants. The Corporation will maintain and regularly update a list of acceptable clearing corporations.

~~(b)~~ — “**acceptable counterparty**” means an entity with whom a Dealer Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows:

1. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection.
2. Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
3. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
4. Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over.
5. Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million.
6. Corporations (other than regulated entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
7. Trusts and limited partnerships with minimum total net assets on the last audited balance sheet in excess of \$100 million,

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provided acceptable financial information with respect to such trust or limited partnership is available for inspection.

8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
9. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
10. Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection.
11. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
12. Federal governments of foreign countries which do not qualify as a *Basel Accord country*.

For the purposes of this definition, a satisfactory regulatory regime will be one within *Basel Accord countries*.

Subsidiaries (excluding regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable counterparty may also be considered as an acceptable counterparty if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the Corporation.

~~(e)~~ — “**acceptable exchange**” means any entity operating as an exchange for securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the exchange’s powers of compliance and enforcement over its members or participants.

~~(e)~~ — “**acceptable institution**” means an entity with which a Dealer Member is permitted to deal on an unsecured basis without capital penalty. The entities are as follows:

1. Government of Canada, the Bank of Canada and provincial governments.
2. All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
3. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
4. Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
5. Federal governments of *Basel Accord countries*.
6. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
7. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
9. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be

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deducted.

For the purposes of this definition, a satisfactory regulatory regime will be one within *Basel Accord countries*.

Subsidiaries (other than regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable institution may also be considered as an acceptable institution if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the Corporation.

~~(e)~~ — “**acceptable securities locations**” means those entities considered suitable to hold securities on behalf of a Dealer Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation rules of the Corporation including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Dealer Member and the securities can be delivered to the Dealer Member promptly on demand. The entities are as follows:

1. **Depositories and Clearing Agencies**

Any securities depository or clearing agency operating a central system for handling securities or equivalent book-based entries or for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the securities depository’s or clearing agency’s powers of compliance and enforcement over its members or participants. The Corporation will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria.

2. **Acceptable institutions and subsidiaries of acceptable institutions** that satisfy the following criteria:

- (a) *Acceptable institutions* which in their normal course of business offer custodial security services; or
- (b) Subsidiaries of *acceptable institutions* provided that each such subsidiary, together with the *acceptable institution*, has entered into a custodial agreement with the Dealer Member containing a legally enforceable indemnity by the *acceptable institution* in favour of the Dealer Member covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the Dealer Member and its clients at the subsidiary’s location.

3. **Acceptable counterparties** - with respect to security positions maintained as a book entry of securities issued by the *acceptable counterparty* and for which the *acceptable counterparty* is unconditionally responsible.

4. **Banks and trust companies otherwise classified as acceptable counterparties** - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required).

5. **Mutual Funds or their Agents** - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.

6. **Regulated entities.**

7. **Foreign institutions and securities dealers** that satisfy the following criteria:

- (a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Canadian \$150 million as evidenced by the audited financial statements of such entity;
 - (b) in respect of which a foreign custodian certificate has been completed and signed in the prescribed form by the Dealer Member’s board of directors or authorized committee thereof;
- provided that:
- (c) a formal application in respect of each such foreign location is made by the Dealer Member to the Corporation in the form of a letter enclosing the financial statements and certificate described above; and
 - (d) the Dealer Member reviews each such foreign location annually and files a foreign custodian certificate with the Corporation annually.

8. **For London Bullion Market Association (LBMA) gold and silver good delivery bars**, means those entities considered suitable to hold these bars on behalf of a Dealer Member, for both inventory and client positions, without capital penalty. These entities must:

- be a market making member, ordinary member or associate member of the LBMA;

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- be on the Corporation's list of entities considered suitable to hold LBMA gold and silver good delivery bars; and
- have executed a written precious metals storage agreement with the Dealer Member, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include provisions that no use or disposition of these bars shall be made without the written prior consent of the Dealer Member, and these bars can be delivered to the Dealer Member promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the Dealer Member as the standard securities custodial agreement.

and such other locations which have been approved as acceptable securities locations by the Corporation.

"applicable association" means for *regulated entity* purposes, an entity that meets the following criteria:

1. the association maintains or is a member of an investor protection regime equivalent to the *Canadian Investor Protection Fund*;
2. the association requires the segregation by its members of customers' fully paid for securities;
3. the association rules set out specific methodologies for the segregation of, or reserve for, customer credit balances;
4. the association has established rules regarding *Dealer Member* and customer account margining;
5. the association is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member's regulatory capital on an ongoing basis; and
6. the association requires regular regulatory financial reporting by its members.

A list of current *applicable associations* is included in the most recent Domestic and Foreign Acceptable Institutions (AI) and Acceptable Counterparties (AC) database.

"applicable exchange" means for *regulated entity* purposes, an entity that is an *acceptable exchange* and meets the following criteria:

1. the exchange maintains or is a member of an investor protection regime equivalent to the *Canadian Investor Protection Fund*;
2. the exchange requires the segregation by its members of customers' fully paid for securities;
3. the exchange rules set out specific methodologies for the segregation of, or reserve for, customer credit balances;
4. the exchange has established rules regarding *Dealer Member* and customer account margining;
5. the exchange is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member's regulatory capital on an ongoing basis; and
6. the exchange requires regular regulatory financial reporting by its members.

A list of current *applicable exchanges* is included in the most recent Domestic and Foreign Acceptable Institutions (AI) and Acceptable Counterparties (AC) database.

(f) **"Basel Accord countries"** means those countries that are members of the Basel Accord and those countries that have adopted the banking and supervisory rules set out in the Basel Accord. [The Basel Accord, which includes the regulating authorities of major industrial countries acting under the auspices of the Bank for International Settlements (B.I.S.), has developed definitions and guidelines that have become accepted standards for capital adequacy.] A list of current Basel Accord countries is included in the most recent ~~list of foreign acceptable institutions and foreign acceptable counterparties~~ Domestic and Foreign Acceptable Institutions (AI) and Acceptable Counterparties (AC) database.

(g) **"broad based index"** means an equity index whose underlying basket of securities is comprised of:

1. thirty or more securities;
2. the single largest security position by weighting comprises no more than 20% of the overall *market value* of the basket of equity securities;
3. the average market capitalization for each security position in the basket of equity securities underlying the index is at least \$50 million;
4. the securities shall be from a broad range of industries and market sectors as determined by the Corporation to represent index diversification; and
5. in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being

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considered an *applicable exchange*, ~~as set out in the definition of “regulated entity” in the General Notes and Definitions.~~

~~(h)~~ — “**market value**” of a security means:

- (i) For securities, precious metals bullion and commodity futures contracts quoted on an active market, the published price quotation using:
 - (A) For listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be,
 - (B) For unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date,
 - (C) For all other unlisted securities (including unlisted debt securities) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of debt securities, based on a reasonable yield rate,
 - (D) For commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date,
 - (E) For money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date,
 - (F) For money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (E) and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and
 - (G) For money market repurchases with borrower call features, the borrower call price, and after making any adjustments considered by the Dealer Member to be necessary to accurately reflect the market value.
- (ii) Where a reliable price for the security, precious metals bullion or commodity futures contract cannot be determined:
 - (A) The value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly; or
 - (B) Where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions; or
 - (C) Where insufficient recent information is available and/or there is a wide range of possible values and cost represents the best value estimate that range, cost.
- (iii) Where a value cannot be reliably determined under subsections ~~(g)~~(i) and ~~(g)~~(ii) above, the amount used:
 - (A) To report the total market value of a Dealer Member securities position; and
 - (B) To calculate the margin requirement for a client account securities position;shall be zero.

~~(i)~~ — “**regulated entity**” means an entity with whom a Dealer Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entity is a participating institution in the Canadian Investor Protection Fund or member of an *applicable exchange* or *applicable association*.

~~For regulated entity purposes an applicable exchange or applicable association means an entity that meets the following criteria:~~

- ~~1. the exchange or association maintains or is a member of an investor protection regime equivalent to the Canadian Investor Protection Fund;~~
- ~~2. the exchange or association requires the segregation by its members of customers’ fully paid for securities;~~
- ~~3. the exchange or association rules set out specific methodologies for the segregation of, or reserve for, customer credit balances;~~
- ~~4. the exchange or association has established rules regarding Dealer Member and customer account margining;~~
- ~~5. the exchange or association is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member’s regulatory capital on an ongoing basis; and~~
- ~~6. the exchange or association requires regular regulatory financial reporting by its members.~~

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~~A list of current applicable exchanges and applicable associations is included in the most recent list of foreign acceptable institutions and foreign acceptable counterparties.~~

(j) ——— “**settlement date - extended**” means a transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.

(k) ——— “**settlement date - regular**” means the settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 business days past trade date, settlement date will be deemed to be 15 business days past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.

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FORM 1, PART II – SCHEDULES 11 AND 11A

NOTES AND INSTRUCTIONS

1. The purpose of this Schedule is to measure the balance sheet exposure a Dealer Member has to foreign currency risk. Schedule 11A must be completed for each foreign currency that has margin requirement greater than or equal to \$5,000.
2. The following is a summary of the quantitative and qualitative criteria for Currency Groups 1-4. Dealer Members should refer to the most recently published listing by SROs of currency groupings.
 - **Currency Group 1** consists of the US dollar.
 - **Currency Group 2** consists of all countries whose currencies have a historical volatility of less than 3% relative to the Canadian dollar, are quoted on a daily basis by a Canadian Schedule 1 chartered bank, and are either a member of the European Monetary System and a participant of the Exchange Rate Mechanism or there is a listed future for the currency on an *applicable exchange* ~~such as the Chicago Mercantile Exchange (CME) or Philadelphia Board of Trade (PBOT).~~
 - **Currency Group 3** consists of all countries whose currencies have a historical volatility of less than 10% relative to the Canadian dollar, are quoted on a daily basis by a Canadian Schedule 1 chartered bank and are a full member of the International Monetary Fund (IMF).
 - **Currency Group 4** consists of all countries, which do not satisfy the quantitative and qualitative criteria for Currency Groups 1-3.
3. Reference should be made to the applicable rules and interpretation notices of the Corporation for definitions and calculations.
4. Monetary assets and liabilities are money or claims to money, the values of which, whether denominated in foreign or domestic currency are fixed by contract or otherwise.
5. All monetary assets and liabilities as well as the Dealer Member’s own foreign currency future and forward commitments are to be reported on a trade date basis.
6. Monetary liabilities and the Dealer Member’s own foreign currency future and forward commitments should be disclosed by maturity dates i.e. less than or equal to two (2) years and greater than two (2) years.
7. Weighted value is calculated for foreign exchange positions with terms to maturity of greater than two (2) business days. The weighted value is derived by taking the term to maturity of the foreign exchange position in calendar days divided by 365 (weighting factor) and multiplying it by the unhedged foreign exchange amount.
8. The total margin requirement is the sum of the spot risk margin and the term risk margin requirements. The spot risk margin rates apply to all unhedged foreign exchange positions regardless of term to maturity. The term risk margin rates apply to all unhedged foreign exchange positions with a term to maturity of greater than two (2) business days. The following summarizes the margin rates by Currency Group:

Currency Group

| | 1 | 2 | 3 | 4 |
|-------------------------------------|-------------------------|-------------------------|--------------------------|---------------------------|
| Spot Risk Margin Rate (Note 1) | 1.0% | 3.0% | 10% | 25% |
| Term Risk Margin Rate (Note 2) | 1.0% to a maximum of 4% | 3.0% to a maximum of 7% | 5.0% to a maximum of 10% | 12.5% to a maximum of 25% |
| Total Maximum Margin Rates (Note 1) | 5% | 10% | 20% | 50% |

Note 1: Spot risk margin rates may be subject to the Foreign Exchange Margin Surcharge

Note 2: If the weighting factor described in 7 above exceeds the maximum term risk margin rate in the above table, the weighting factor should be adjusted to the maximum.

9. Dealer Members may elect to exclude non-allowable monetary assets from the total monetary assets reported on Schedule 11A for purposes of the foreign exchange margin calculation. The reason underlying this proviso is that a Dealer Member should not have to provide foreign exchange margin on a non-allowable asset which is already fully provided for in the determination of the capital position of the Dealer Member unless it serves as an economic hedge against a monetary liability.
10. For Dealer Members offsetting an inventory futures contract/forward contract position in which there is a futures contract for the currency listed on an *applicable exchange*, an alternative margin calculation may be used (refer to rules and interpretation notices of the Corporation). Any contract positions for which the margin is calculated under the alternative method must be reported as part of the inventory margin calculations on Schedule 2 and should be excluded from Schedule 11A.
11. Line 20 - The Foreign Exchange Concentration Charge applies only to currencies in Groups 2 to 4.

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