

## INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

## PROPOSED AMENDMENTS TO FORM 1 AND COROLLARY AMENDMENTS TO THE IIROC RULES

## CLEAN COPY OF THE COROLLARY AMENDMENTS TO IIROC RULES

**Proposed Amendments to subsection 1201(2) – Definitions**

“futures contract”	A contract to make or take delivery of the underlying interest during a designated future month on terms agreed to when the contract is entered on a futures exchange.
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**Proposed Amendments to subsection 5130(4) – Definitions**

“foreign listed equity securities eligible for margin”	Securities (other than bonds, debentures, rights and warrants) listed on an <i>acceptable exchange</i> outside of Canada and the United States that are constituent securities for the exchange’s major broadly based <i>index</i> , and the <i>index</i> is on IIROC’s list of foreign market indices whose constituent securities are eligible for margin.
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**Proposed Amendments to subsection 5130(9) – Definitions**

“index”	<p>An equity index in which:</p> <ul style="list-style-type: none"> <li>(i) the basket of <i>equity securities</i> underlying the index consists of eight or more securities,</li> <li>(ii) the single largest security position by weighting comprises not more than 35% of the overall <i>market value</i> of the basket,</li> <li>(iii) the average market capitalization for each security position in the basket of <i>equity securities</i> underlying the index is at least \$50 million, and</li> <li>(iv) the securities constituting the foreign equity index are listed and traded on an exchange that meets the criteria for an <i>acceptable exchange</i>.</li> </ul>
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**Proposed Amendments to section 2111 – Public distribution of a Dealer Member’s securities**

- (3) Subsection 2111(1) does not apply if securities with identical attributes have been trading on an exchange in Canada for at least six months before the new distribution begins.

**Proposed Amendments to section 2112 – Take-over bids or amalgamations**

(3) Subsection 2112(1) does not apply if:

- (i) securities with identical attributes have been trading on an exchange in Canada for at least six months before the transaction, or
- (ii) the circumstances of the transaction, such as the terms of the transaction, were arrived at through arm's length negotiations and the *applicable District Council*, or its delegate, determines that valuations are not required.

**Proposed Amendments to section 3805 – Trade blotters (records of original entry)**

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- (ii) in the case of trades in *futures contracts*:
  - (a) the commodity and quantity bought or sold,
  - (b) the delivery month and year,
  - (c) the price at which the contract was entered into,
  - (d) the futures exchange,
  - (e) the name of the dealer if any, used by the *Dealer Member* as its agent to effect the trade,
  - (f) the trade dates,
  - (g) the applicable account in which each transaction was effected, and
  - (h) whether the transactions are opening or closing transactions (where required by the marketplace), and
- (iii) in the case of trades in *futures contract options*:
  - (a) the type and number,
  - (b) the premium,
  - (c) the *futures contract* that is the subject of the *futures contract option*,
  - (d) the delivery month and year of the *futures contract* that is the subject of the *futures contract option*,
  - (e) the declaration date,
  - (f) the striking price,

- (g) the futures exchange,
- (h) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade,
- (i) the trade dates,
- (j) the applicable account in which each transaction was effected, and
- (k) whether the transactions are opening or closing transactions (where required by the marketplace).

**Proposed Amendments to section 3808 – Client account statements**

- (6) In the case where a *Dealer Member* has acted as an agent in connection with a liquidating trade in a *futures contract*, the monthly statement must contain, at a minimum, the following:
  - (i) the dates of the initial transaction and liquidating trade,
  - (ii) the commodity and quantity bought and sold,
  - (iii) the futures exchange upon which the contract was traded,
  - (iv) the delivery month and year,
  - (v) the prices on the initial transaction and on the liquidating trade,
  - (vi) the gross profit or loss on the transactions,
  - (vii) the commission, and
  - (viii) the net profit or loss on the transactions.

**Proposed Amendments to section 4805 – Fixed income delivery**

- (6) Good delivery
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  - (vii) *Good delivery securities* may consist of the following, provided that is it acceptable to the transfer agent:
    - (a) bonds or debentures registered in the name of an *individual*, properly endorsed and with endorsement guaranteed by a *Dealer Member* in good standing of *IIROC* or an exchange in Canada or the United States, or by a *chartered bank* or *qualified Canadian trust company*,
    - (b) bonds or debentures registered in the name of a *Dealer Member* or nominee of a *Dealer Member* and properly endorsed,
    - (c) bonds or debentures registered in the name of a member of an exchange in Canada or the United States and properly endorsed,

- (d) bonds or debentures registered in the name of a *chartered bank* or *qualified Canadian trust company* or the nominee of a *chartered bank* or qualified trust company and properly endorsed.

**Proposed Amendments to section 4807 – Stock trading units**

(2) In section 4807 “trading units” is defined as follows:

- (i) Common and preferred shares not listed on an exchange in Canada or the United States:
  - (a) in lots of 500 shares, if market price per share is below \$1,
  - (b) in lots of 100 shares, if market price per share is at \$1 and below \$100, or
  - (c) in lots of 50 shares, if market price per share is at \$100 or above.

**Proposed Amendments to section 4808 – Stock delivery**

(5) Good delivery

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- (ii) Certificates registered in the name of:
  - (a) an *individual*, must be endorsed by the registered holder in exactly the same manner as registered and the endorsement guaranteed by a *Dealer Member* or by a member of an exchange in Canada or the United States or by a *chartered bank* or *qualified Canadian trust company*. Where the endorsement does not exactly correspond to the registration shown on the face of the certificate, a certification by a *Dealer Member*, a member of an exchange in Canada or the United States, a *chartered bank* or a *qualified Canadian trust company* that the two signatures are the same person’s is required,
  - (b) a *Dealer Member* or a member of an exchange in Canada or the United States or a nominee of either and properly endorsed,
  - (c) a *chartered bank* or *qualified Canadian trust company* or the nominee of a *chartered bank* or *qualified Canadian trust company* and properly endorsed by a *Dealer Member*, or
  - (d) any other manner providing it is properly endorsed and the endorsement is guaranteed by a *Dealer Member* or by a member of an exchange in Canada or the United States or by a *chartered bank* or *qualified Canadian trust company*.

**Proposed Amendments to section 5460 – General margin requirements for foreign exchange positions**

- (7) Inventory long or short currency *futures contracts* listed on a futures exchange which are included in the unhedged foreign exchange calculations hereunder are not required to be margined pursuant to section 5790.

**Proposed Amendments to section 5461 – Foreign exchange currency group criteria and monitoring**

- (1) **Criteria** - The qualitative and quantitative criteria for initial qualification within each currency group are as follows:

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- (ii) A Group 2 currency must:
- (a) have a spot price volatility level of less than or equal to 3.00%,
  - (b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and
  - (c) have either:
    - (I) a daily quoted spot rate by either:
      - (A) a member of the Economic and Monetary Union, or
      - (B) a participant in the Exchange Rate Mechanism II,
    - or
    - (II) a listed currency *futures contract* on a futures exchange.

**Proposed Amendments to section 5467 – Alternative calculation approach for Dealer Member foreign exchange positions**

- (1) As an alternative to the foreign exchange margin requirement determined under sections 5463 through 5466 for futures and forward contract inventory positions denominated in a currency which has a currency *futures contract* which trades on a futures exchange, the foreign exchange margin requirement may be calculated as follows.

- (i) *Futures contracts - Foreign exchange positions* consisting of *futures contracts* may be margined at the margin rates prescribed by the futures exchange on which the *futures contracts* are listed.

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- (iii) **Futures and forward contract offsets** - Futures and forward contract positions which are not denominated in Canadian dollars may be margined as follows:
- (a) (I) the margin requirement is the greater of the requirement determined under sections 5463 through 5466 on each of the two positions,
  - (II) margin rates applicable to unhedged positions under paragraph 5467(1)(iii)(a)(I) are the rates established by sections 5461 through 5466 and not the rates prescribed by the futures exchange on which the *futures contracts* are listed,

**Proposed Amendments to section 5790 – Minimum margin requirements (Futures contracts and futures contract options)**

(1) Where a *Dealer Member* inventory or client account contains positions in *futures contracts* or *futures contract options*, the margin required is the greatest of:

- (i) the margin required by the futures exchange on which the contract is entered into,
- (ii) the margin required by the *clearing corporation*, and
- (iii) the margin required by the *Dealer Member's* clearing broker, where applicable.

provided that where a *Dealer Member* or a client owns a commodity and such ownership is evidenced by warehouse receipts or comparable documentation and such *Dealer Member* or client also has a short position in *futures contracts* in the same commodity, the two positions may be offset and the required margin shall be computed with respect to the net long or net short position only.

(2) Where a futures exchange or its *clearing corporation* prescribes margin requirements based on initial and maintenance rates, the margin required at the time the contract is entered shall be based on the prescribed initial rate. When subsequent adverse price movements in the value of the contracts reduce the margin on deposit to an amount below the maintenance level, a further amount to restore the margin on deposit to the initial rate amount shall be required. The *Dealer Member* may, in addition, require such further margin or deposit against liability as it may consider necessary as a result of fluctuations in market prices from time to time.

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(5) Where a *Dealer Member's* inventory account holds inter-commodity spreads in Government of Canada bond *futures contracts* and U.S. treasury bond *futures contracts* traded on a futures exchange in Canada and the United States and *equivalent quantities* of each position in the spread are held, the margin required is the greater of the margin required on either the long side or the short side only. For this purpose, the foregoing spreads shall be on the basis of \$1.00 Canadian for each \$1.00 U.S. of the contract size of the relevant *futures contracts*. With respect to the United States side of the above inter-commodity spreads, such positions must be maintained on a contract market as designated pursuant to the United States Commodity Exchange Act.