

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

PROPOSED AMENDMENTS TO PERMIT REDUCED MARGIN FOR SWAP POSITION PARTIAL OFFSETS HELD IN  
INVENTORY

BLACKLINE COPY OF THE PROPOSED AMENDMENTS TO THE IIROC RULES

OFFSETS ONLY AVAILABLE FOR DEALER MEMBER INVENTORY POSITIONS

SWAP POSITIONS

5680. Offset involving two interest rate ~~swaps~~swap positions

- (1) Where a Dealer Member inventory account contains the following pairing:
- (i) ~~is a party to an~~ a position in one or more interest rate swaps requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar fixed (or floating) interest rate amounts ~~calculated with reference to a notional amount~~,
  - and
  - (ii) ~~is a party to another~~ offsetting position in one or more interest rate swaps entitling it to receive (or requiring it to pay) a fixed (or floating) interest rate amount ~~calculated with reference to the same notional amount~~, denominated in the same currency and within the same *maturity band* for margin purposes as the *interest rate swap* or swaps referred to in clause 5680(1)(i),

the two positions in clauses 5680(1)(i) and 5680(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the *fixed interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *fixed interest rate* receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

5681. Offsets involving interest rate swaps and federal government debt ~~securities~~security positions

- (1) **Offset involving fixed interest rate swap component and federal government debt ~~securities~~security positions** - Where a Dealer Member inventory account contains the following pairing:
- (i) ~~is a party to an~~ a position in one or more interest rate swaps requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *fixed interest rate* amounts ~~calculated with reference to a notional amount~~,
  - and

- (ii) ~~holds~~ a long (or short) position in *Canada debt securities, United States debt securities*, or any other *debt securities* described in category (i) of subsection 5210(1) ~~with a principal amount equal to and~~ denominated in the same currency as the ~~notional amount of the~~ *interest rate swap or swaps* and with a *term to maturity* that is within the same *maturity band* for margin purposes as the *interest rate swap or swaps*,

the two positions in clauses 5681(1)(i) and 5681(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position. Any margin requirement calculated for the separate *floating interest rate* receipt (or payment) component position will continue to be required unless that position separately qualifies for the offset set out in subsection 5681(2).

- (2) **Offset involving floating interest rate swap component and federal government debt securities**security positions - Where a *Dealer Member* inventory account contains the following pairing:

- (i) ~~is a party to a~~ position in one or more *interest rate swaps* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *floating interest rate* amounts ~~calculated with reference to a notional amount~~,

and

- (ii) ~~holds~~ a long (or short) position in *Canada debt securities, United States debt securities*, or any other *debt security*securities described in category (i) of subsection 5210(1), ~~maturing within one year with a principal amount equal to and~~ denominated in the same currency as the ~~notional amount of the swap~~ interest rate swap or swaps and maturing within one year,

the two positions in clauses 5681(2)(i) and 5681(2)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* in respect of the positions. Any margin requirement calculated for the separate *fixed interest rate* receipt (or payment) component position will continue to be required unless that position qualifies for the offset set out in subsection 5681(1).

**5682. ~~Offsets~~ Offset involving two total performance swaps ~~and underlying securities~~positions**

**~~(1) — Offset involving two total performance swaps —~~**

- (1) Where a *Dealer Member* inventory account contains the following pairing:

- (i) ~~is a party to a~~ position in one or more *total performance swaps* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar amounts calculated based on the performance of a stipulated *underlying security* or basket of securities, ~~with reference to a notional amount~~,

and

- (ii) ~~is a party to~~ another position in one or more *total performance swaps* entitling it to receive (or requiring it to pay) amounts calculated based on the performance of the

same *underlying security* or basket of securities, ~~with reference to the same notional amount~~ and denominated in the same currency,

the two positions in clauses 5682(1)(i) and 5682(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the performance payment (or receipt) component position may only be offset against the *normal margin required* on the performance receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

### **5683. Offsets involving total performance swaps and underlying security positions**

**(21) Offset involving short total performance swap component ~~position~~ and long underlying security positions** - Where a *Dealer Member* inventory account contains the following pairing:

(i) ~~is a party to a~~ a short position in one or more total performance swaps ~~requiring it to pay amounts calculated based on the performance of a stipulated underlying security or basket of securities, with reference to a notional amount,~~

and

(ii) ~~holds a~~ long ~~an equivalent quantity of~~ position in the same *underlying security* or basket of securities,

the two positions in clauses ~~5682(25683(1))~~(i) and ~~5682(25683(1))~~(ii) may be offset and the minimum margin required for both positions may be computed as either:

(iii) ~~nil~~, where it can be demonstrated that sell-out risk relating to the offset has been mitigated:

- (a) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the sell-out price for the long position in the *underlying security* or basket of securities, or
- (b) since, due to the features inherent in the long position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the long position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,

~~or~~

the net of the normal margin required for each position.

or

(iv) where sell-out risk relating to the offset has not been mitigated, the net of the normal margin required for each position plus 20% of the normal margin required on the

hedged portion of the long position in the *underlying security* or basket of securities ~~where sell-out risk relating to the offset has not been mitigated.~~

(32) **Offset involving long total performance swap component ~~position~~ and short underlying security positions** - Where a *Dealer Member* inventory account contains the following pairing:

(i) ~~is a party to a~~ long position in one or more *total performance swaps* ~~entitling it to receive amounts calculated based on the performance of a stipulated underlying security or basket of securities, with reference to a notional amount,~~

and

(ii) ~~holds a~~ short ~~an equivalent quantity of~~ position in the same *underlying security* or basket of securities,

the two positions in clauses 5682(3)(i) and 5682(3)(ii) may be offset and the minimum margin required for both positions may be computed as either:

(iii) ~~nil,~~ where it can be demonstrated that buy-in risk relating to the offset has been mitigated:

(a) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the buy-in price for the short position in the *underlying security* or basket of securities, or

(b) since, due to the features inherent in the short position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the short position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,

~~or~~

the net of the normal margin required for each position.

or

(iv) where buy-in risk relating to the offset has not been mitigated, the net of the normal margin required for each position plus 20% of the normal margin required on the hedged portion of the short position in the *underlying security* or basket of securities ~~where buy-in risk relating to the offset has not been mitigated.~~

~~5683~~5684. – 5699. Reserved.

