

**FORM 1, PART II – SCHEDULE 9
NOTES AND INSTRUCTIONS**

Introduction

1. The purpose of this schedule is to measure and provide appropriate provisions for securities concentration risk. Concentration exposures are tested according to either a General Security Test methodology (Schedule 9A) or a Debt Security Test methodology (Schedule 9B). The Schedule 9 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 9A and 9B, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.

The Notes and Instructions to Schedule 9 provide securities concentration calculation requirements, concentration thresholds, concentration charges, and other requirements that are applicable to both tests. Certain prescribed differences between the test methodologies are noted below, such as the calculation of the short position exposures and the maximum concentration charges, described in Notes 4, 7(b), and 12.

The Notes and Instructions to Schedules 9A and 9B provide more detail on the positions included for testing under each test. The Notes and Instructions to Schedule 9B detail additional adjustments applicable to the Debt Security Test.

Calculation requirements applicable to both tests, Notes 2-13

2. The securities and precious metals positions included for exposure testing are those where:
 - loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account; or
 - an inventory position is being held.
3. Securities and precious metals that are required to be in segregation or safekeeping should not be included in the issuer position or precious metal position. Securities and precious metals that have been segregated, but are not required to be, can still be relied on by the Dealer Member for loan value, and must be included in the issuer position and precious metal position.
4. For short positions reported on Schedule 9A, the loan value is the *market value* of the short position. For short positions reported on Schedule 9B, the loan value is the same as calculated for long positions.

Client position

5. (a) Client positions are to be reported on a settlement date basis for client accounts including positions in margin accounts, regular cash accounts [when any transaction in the account is outstanding after settlement date] and delivery against payment and receipt against payment accounts [when any transaction in the account is outstanding after settlement date]. Within each client account, security positions and precious metal positions that qualify for a margin offset may be eliminated.
 - (b) Positions in delivery against payment and receipt against payment accounts with *acceptable institutions, acceptable counterparties, or regulated entities* resulting from transactions that are outstanding less than ten business days past settlement date are not to be included in the positions reported. If the transaction has been outstanding ten business days or more past settlement and is not confirmed for clearing through an *acceptable clearing corporation* or not confirmed by the *acceptable institution, acceptable counterparty or regulated entity*, then the position must be included in the position reported.

Dealer Member's own position

6. (a) Dealer Member's own inventory positions are to be reported on a trade date basis, including new issue positions carried in inventory twenty business days after new issue settlement date. All security positions that qualify for a margin offset may be eliminated.
 - (b) The amount reported must include uncovered stock positions in market-maker accounts.

Amount loaned

7. The client and Dealer Member's own positions reported are to be determined based on the combined client/Dealer Member's own long or short position that results in the largest amount loaned exposure.

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Appendix D

IIROC Notice 21-0028 – Rules Notice – Notice of Approval/Implementation – Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

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- (a) To calculate the combined amount loaned on the long position exposure, combine:
- the loan value of the gross long client position (if any) contained within client margin accounts;
 - the weighted *market value* (calculated pursuant to the weighted *market value* calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (b)) of the gross long client position (if any) contained within client cash accounts;
 - the *market value* (calculated pursuant to the *market value* calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (b)) of the gross long client position (if any) contained within client delivery against payment accounts; and
 - the loan value (calculated pursuant to the Notes and Instructions to Schedule 2) of the net long Dealer Member's own position (if any).
- (b) To calculate the combined amount loaned on the short position exposure reported on Schedule 9A, combine
- the *market value* of the gross short client position (if any) contained within client margin, cash and receipt against payment accounts; and
 - the *market value* of the net short Dealer Member's own position (if any).
- Calculate the combined amount loaned on the short position exposure reported on Schedule 9B according to the same methodology described in Note 7(a).
- (c) If the loan value of an issuer position or a precious metal position (net of issuer securities or precious metal position required to be in segregation/safekeeping) does not exceed one-half (one-third in the case of an issuer position or precious metal position which qualifies under either Note 8(a) or 8(b) below) of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7) as most recently calculated, the completion of the columns titled "Adjustments in arriving at Amount Loaned" (on Schedules 9A and 9B), "Risk-weighting adjustment factor %" (Schedule 9B), and "Risk-weighted amount loaned" (Schedule 9B) is optional. However, nil should be reflected for the concentration charge.
- (d) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:
- (i) Security positions and precious metal positions that qualify for a margin offset may be excluded, as previously discussed in Notes 5(a) and 6(a);
 - (ii) Security positions and precious metal positions that represent excess margin in the client's account may be excluded. (Note if the starting point of the calculations is securities or precious metal positions not required to be in segregation/safekeeping, this deduction has already been included in the loan value calculation of Column 7 on Schedules 9A and 9B.);
 - (iii) Security positions that are financed by limited recourse loans that meet the industry standard wording set out in the Limited Recourse Call Loan Agreement may be excluded;
 - (iv) In the case of margin accounts, 25% of the *market value* of long positions in any: (a) non-marginable securities or, (b) securities with a margin rate of 100%, in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;
 - (v) In the case of cash accounts, 25% of the *market value* of long positions in any securities whose *market value* weighting is 0.000 (pursuant to Schedule 4, Note 9, Cash Accounts Instruction (a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;
 - (vi) The amount loaned values of trades made with financial institutions that are not *acceptable institutions*, *acceptable counterparties* or *regulated entities*, if the trades are outstanding less than 10 business days past

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NOTES AND INSTRUCTIONS [Continued]

settlement date, and the trades were confirmed on or before settlement date with a settlement agent that is an *acceptable institution* may be deducted from the amount loaned calculation; and

(vii) Any security positions or precious metal positions in the client's (the "Guarantor") account, which are used to reduce the margin required in another account pursuant to the terms of a guarantee agreement, shall be included in calculating the amount loaned on each security for the purposes of the Guarantor's account.

(e) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

Concentration thresholds

8. The following concentration thresholds apply:

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold
a. Related or "non-arm's length" securities	Securities issued by: i. the Dealer Member, or ii. a company meeting all of the following thresholds: <ul style="list-style-type: none"> Dealer Member accounts are included in the consolidated financial statements the assets and revenue of the Dealer Member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the Dealer Member for the preceding fiscal year. 	One-third of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated.
b. Non-marginable securities of an issuer held in a cash account(s)	Non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted <i>market value</i> calculation set out in Schedule 4, Note 9.	
c. Non-related or arm's length marginable securities	Securities, or a precious metal position, other than those described in 8(a) and 8(b) above.	Two-thirds of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated.
d. Additional exposures	The following scenarios result in a reduced concentration threshold for any other issuer or precious metal position: <ul style="list-style-type: none"> <u>Multiple violations</u>: If the Dealer Member has already incurred a concentration charge for an issuer position or precious metal position under 8(a), 8(b), or 8(c); or, 	One-half of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated. Any additional exposures for issuer positions classified under 8(a) or 8(b) are measured at one-third of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated.

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FORM 1, PART II – SCHEDULE 9
NOTES AND INSTRUCTIONS [Continued]

	<ul style="list-style-type: none"> • <u>Material exposures:</u> If the Dealer Member has already measured a concentration exposure on any one non-related issuer or a precious metal position in excess of one-half of the sum of Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated. 	
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9. The additional exposures threshold reductions detailed in Note 8(d) apply to all issuer positions tested under Schedule 9, including positions from the same issuer whose concentration exposures are calculated separately under Schedules 9A and 9B.

Concentration charge

10. An amount equal to 150% of the excess of the Final adjusted amount loaned over the concentration thresholds indicated in Note 8 is required unless the excess is cleared within five business days of the date it first occurs.
11. For the purpose of calculating the concentration charges as required by Notes 8(a), 8(b), 8(c), 8(d), and 10 above, such calculations must be performed for the largest three issuer positions and precious metal positions originating from Schedule 9A and the largest three issuer positions originating from Schedule 9B, ranked by Final adjusted amount loaned in which there is a concentration exposure. Concentration exposures in issuer positions exceeding the thresholds described in Notes 8(a) and 8(b) are ranked first on Schedule 9.
12. For Schedule 9A positions, the concentration charge relating to long positions is limited to the loan value of the issuer security(ies) or precious metal position for which the charge is incurred. For Schedule 9B positions, the concentration charge is limited to the risk-weighted loan value of the issuer security(ies) as calculated for long positions, which is also applicable for short positions.

Other

13. (a) Where there is an over exposure in a security or a precious metal position and the concentration charge as referred to above would produce either a capital deficiency or a violation of the Early Warning Rule, the Dealer Member must report the over exposure situation to IROC on the date the over exposure first occurs.
- (b) A measure of discretion is left with IROC in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in "readily saleable quantities".

FORM 1, PART II – SCHEDULE 9A

CONCENTRATION OF SECURITIES

GENERAL SECURITY TEST

[excluding securities required to be in segregation or safekeeping & debt securities with a margin rate of 10% or less (see S9, note 3 and S9A, note 3)]

1	2	3	4	5	6	7	8	9	10	11	12
Description of Security	Client position long/(short) C\$'000	Dealer Member's own long/(short) C\$'000	Unit Price	Market value C\$'000	Effective margin rate	Loan value of securities C\$'000	Adjustments in arriving at amount loaned C\$'000	"Amount loaned" C\$'000	Amount cleared within five business days C\$'000	Final adjusted amount loaned C\$'000	General Security Test - exposure greater than 1/2 RAC, or 1/3 RAC («Yes» or «No»)
[S9A, note 2]	[S9, note 5]	[S9, note 6]				[S9, note 2]		[S9, note 7]			[S9, notes 1 and 8]

[See notes and instructions] xxxx-20xx

**FORM 1, PART II – SCHEDULE 9A
NOTES AND INSTRUCTIONS**

General Security Test

1. Dealer Members must disclose the largest ten issuer positions and precious metal positions subject to the General Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed.
2. An issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt or other securities of an issuer other than debt securities cited in note 3). Precious metal positions are also tested using the General Security Test methodology, and must include all certificates and bullion of the particular precious metal (gold, platinum or silver).
3. Exclude all:
 - debt securities with a normal margin requirement of 10% or less; and
 - stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments.
4. An amount loaned exposure to *broad based index* positions may be treated as an amount loaned exposure to each of the individual securities comprising the index basket. These amount loaned exposures may be reported by breaking down the *broad based index* position into its constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each index constituent security position held, sum:

- a) the individual security positions held, and
- b) the constituent security position held.

[For example, if ABC security has a 7.3% weighting in a *broad based index*, the number of securities that represents 7.3% of the value of the broad based index position shall be reported as the constituent security position.]

FORM 1, PART II – SCHEDULE 9B

**CONCENTRATION OF SECURITIES
DEBT SECURITY TEST**

[excluding securities required to be in segregation or safekeeping & positions reported on Schedule 9A (see S9, note 3)]

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Description of Security	Client position long/(short) C\$'000	Dealer Member's own long/(short) C\$'000	Unit Price	Market value C\$'000	Effective margin rate	Loan value of securities C\$'000	Adjustments in arriving at amount loaned C\$'000	"Amount loaned" C\$'000	Risk-weighting adjustment factor %	Risk-weighted "amount loaned"(Column 9 x Column 10) C\$'000	Amount cleared within five business days C\$'000	Final adjusted amount loaned C\$'000	Debt Security Test – exposure greater than 1/2 RAC, or 1/3 RAC («Yes» or «No») [S9, notes 1 and 8]
[S9B, note 2]	[S9, note 5]	[S9, note 6]				[S9, note 2]		[S9, note 7]	[S9B, notes 5, 6 and 7]	[S9B, notes 5, 6 and 7]			
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[See notes and instructions]

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**FORM 1, PART II – SCHEDULE 9B
NOTES AND INSTRUCTIONS**

Debt Security Test

1. Dealer Members must disclose the largest ten issuer positions subject to the Debt Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.
2. The Debt Security Test methodology applies to debt securities with a normal margin requirement of 10% or less, whose concentration exposures are calculated separately from the other securities of an issuer included for testing under the General Security Test. An issuer position must include all debt issuance classes or series of securities for an issuer (i.e. all long and short positions in debt securities with a normal margin requirement of 10% or less, other than debt securities cited in Note 3).
3. Exclude non-commercial debt securities with a normal margin requirement of 10% or less and debt obligations and evidences of indebtedness with an original maturity of 1 year or less, as categorized below, that meet the following minimum *designated rating organization* current credit rating requirements and qualifications:

Exclusions from Schedule 9B			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Non-commercial debt securities with a normal margin rate of less than 10%, issued or guaranteed by the following: <ul style="list-style-type: none"> • national governments of Canada, United Kingdom, and United States • Canadian provincial governments • the International Bank for Reconstruction and Development • Canadian and United Kingdom municipal corporations 	Not applicable	Not applicable (N/A)
2.	Other non-commercial debt securities with a normal margin rate of 10% or less	A	
3.	Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following: <ul style="list-style-type: none"> • A Canadian financial institution qualifying as an acceptable institution • A foreign financial institution qualifying as an acceptable institution 	R-1(low), F1, P-1, A-1(low)	Structured finance products as defined in National Instrument 25-101 are not eligible for exclusion

Additional netting allowance for Dealer Member's own position and client position

4. Security positions that qualify for a margin offset may be excluded, as detailed in Schedule 9, Notes 5(a) and 6(a). The remaining net long (short) Dealer Member's own inventory position may be calculated on a net basis. Individual client account positions are also eligible for this netting allowance. The offsetting of positions is allowed if:
 - the positions are of the same seniority, or
 - the short position is junior in the statutory creditor hierarchy, or contractually subordinated, to the long position.

It is not permitted to net the Dealer Member's own position against client positions, or to net exposures across client accounts. Netting across client accounts is only permitted in accordance with IIROC Rule 5830, supported by a written hedge agreement in a form acceptable to IIROC.

FORM 1, PART II – SCHEDULE 9B
NOTES AND INSTRUCTIONS [Continued]

Additional amount loaned adjustments available for the Debt Security Test

5. The amount loaned may be reduced by applying a risk-weighting adjustment factor if the debt security(ies) meets the minimum current credit requirement from at least one *designated rating organization* as indicated in the following table:

Risk-weighting adjustments for debt securities margined at 10% or less			
	Minimum designated rating organization rating	Adjustment factor	Multiple designated rating organization current credit ratings
Long term rating:			If only one current credit rating, that rating applies. If two current credit ratings, the lower rating applies. If more than two current credit ratings, refer to the highest two ratings and apply the lower rating.
1.	AAA	40%	
2.	AA to A	50%	
3.	BBB	60%	
4.	Below BBB or not rated	80%	
Short term rating:			
5.	Above R-2, F3, P-3, A-3	40%	
6.	R-2, F3, P-3, A-3	60%	
7.	Below R-2, F3, P-3, A-3 or not rated	80%	

6. In order to qualify for a risk-weighting adjustment factor, the following additional eligibility standards apply:
- commercial debt securities must be ranked senior to any outstanding equity securities from the same issuer in the statutory creditor hierarchy, or contractually
 - structured finance products as defined in National Instrument 25-101 are risk-weighted at 80%.

2-step methodology for determining risk-weighting adjustment factor

7. Step 1: Calculate the issuer's risk-weighted amount loaned using the highest determined adjustment factor (i.e. lowest applicable DRO rating or not rated in Note 5) for all debt issue exposures held for that issuer. If the risk-weighted amount loaned calculated in Step 1 does not exceed any of the concentration thresholds detailed in Schedule 9, Notes 8(a), 8(b), 8(c), 8(d), there is no need to make any additional risk-weighting calculations.

Step 2: Option to use a weighted average adjustment factor to calculate the risk-weighted amount loaned:

1. calculate the weights for each applicable adjustment factor within the aggregate Amount Loaned exposure (Schedule 9B, Column 9) for the issuer.
2. multiply each adjustment factor by its weight in the aggregate Amount Loaned exposure.
3. add the weighted adjustment factors together to determine the weighted average adjustment factor.