MEMBER REGULATION

INVESTMENT DEALERS ASSOCIATION OF CANADA

notice

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

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MR – 006

January 24, 2000

ATTENTION:
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ELIMINATION OF STANDBY SUBORDINATED DEBT FOR REGULATORY CAPITAL PURPOSES AND ADOPTION OF PROVIDER OF CAPITAL CONCENTRATION CHARGE - FORM 1

As set out in Bulletin No. 2683, standby subordinated debt will no longer be considered capital for regulatory purposes, **effective April 1, 2000**. This member regulation notice is being issued to provide details of the history of this proposal, the specific changes being made to eliminate standby subordinated debt as regulatory capital and the accompanying rule changes to be made at the same time.

History of Proposal

Securities firms are required by provincial securities regulation to have adequate capital at all times. In addition, firms which are members of the Canadian Investor Protection Fund ("CIPF") sponsoring Self Regulatory Organizations ("SROs"), which include the Investment Dealers Association of Canada, are subject to both the CIPF Minimum Standards and the regulations of the SROs. These require firms to have adequate regulatory capital at all times. The nature and the extent of the required regulatory capital are specifically defined in the SRO regulations.

Subordinated loans are an eligible form of regulatory capital. A subordinated loan is subject to a three party legal agreement, drafted in consultation with the Ontario and other Securities Commissions and the Canadian Bankers' Association, between the lender, the SRO member firm and the SRO. This agreement which subordinates repayment of the loan to the claims of general creditors such as clients and stipulates that the loan cannot be repaid without the approval of the SRO. A SRO will only approve the repayment of a subordinated loan if, after repayment, the firm will be adequately capitalized by regulatory standards.

A subordinated loan can be executed with an individual or a corporation, including a financial institution. Subordinated loans are not collateralized by the securities firm. If collateral or a guarantee were provided to the lender by the securities firm, it would be deducted from the value of the subordinated loan, effectively removing the value of the loan for regulatory capital purposes. Collateral or guarantees may be provided outside the securities firm, by a related company, for instance, provided that they do not impact the securities firm in any way.

In the early 1980's, standby subordinated loans ("standbys") were approved as a source of regulatory capital. Standbys are also executed pursuant to a three party legal agreement, between the lender, the SRO member firm and the SRO, in which the lender promises to lend up to a fixed sum to the SRO member firm, on demand, by either the firm or the SRO. The amounts so lent become subordinated in the same manner as the subordinated loans referred to above. In order to be eligible as regulatory capital, standbys could only be executed with a Canadian chartered bank.

The standby was created in response to the need for regulatory capital, which did not necessarily give rise to the need for liquidity. SRO member firms are permitted to commingle client funds with their own funds and are required to disclose this fact to their clients. This practice is similar to that of deposit taking institutions and while the objective of the securities firms is not to collect deposits, there can be large sums of cash awaiting investment at any given time in an SRO member firm. The regulatory capital formula imposes strict guidelines, particularly with respect to liquidity, on the investments which can be made by the SRO member firms in order to ensure that a firm can promptly return all amounts owed to clients on demand. A standby was felt to be a potentially superior form of capital relative to a regular subordinated loan because the funds had not yet been drawn or invested and would therefore be available on a more timely basis in the event of financial difficulty of the securities firm.

At the time that standbys were approved, ownership restrictions in the financial industry in Canada created what were known as the "Four Pillars". Banks, trust companies, insurance companies and securities firms did not have common ownership and dealt with each other at arm's length. This "four pillar" structure existed until 1986 when ownership of the securities industry was deregulated to permit both public and foreign ownership. The Hockin-Kwinter Memorandum defined, for Ontario, the activities which could be performed in each of the federal Financial Institutions and security entities. In 1992, changes to the federal Financial Institution legislation permitted cross ownership between banks, trust companies and insurance companies. However, in order to comply with the differing regulatory requirements, financial conglomerates were required to maintain separate legal entities along the traditional "four pillar" lines.

Under the "four pillar" environment, banks issued standby subordinated loans to arm's length SRO member firms on the basis of credit analysis and evaluation of the business opportunity of providing such facilities. If a securities firm, which ran into financial difficulty, had an undrawn standby subordinated loan, the standby loan could be drawn and the money used to meet the demands of creditors which included clients. It was highly unlikely that there would ever be a situation where both the SRO member firm and the Canadian chartered bank which had issued the standby, were in financial difficulty at the same time.

The formation of financial conglomerates in Canada now results in situations where a parent bank (pursuant to Schedule G of Form 1, only Schedule 1 banks may issue standby subordinated loans) is permitted, under existing regulations, to capitalize its subsidiary securities firm with

standby subordinated loans. The parent bank is not subject to any regulatory capital charge for providing such a loan, because it is regulated based on its consolidated capital and a loan to a subsidiary disappears upon consolidation The result is that bank owned securities firms have large amounts of regulatory capital which are a promise to pay from its parent bank. In the event that the bank owned securities firm encounters financial difficulties and requires the funds under the standby loan it is likely that the parent bank will also be in financial difficulty and therefore unable to advance the funds. This circumstance, referred to as "contagion", is the subject of review by regulators on an international basis.

In addition to the contagion circumstance referred to above, the ability of a securities firm to draw-down the standby loan on a timely basis has come into question recently. If the standby loan facility cannot be drawn upon on a timely basis, it is inappropriate to continue to allow the inclusion of standby loans in regulatory capital, whether provided on a non-arm's length or arm's length basis.

ELIMINATION OF STANDBY SUBORDINATED DEBT FOR REGULATORY CAPITAL PURPOSES

As a result, the Board of Directors of the Association has approved the attached amendments to Note 4 of Schedule G of Form 1, which result in the elimination of all forms of standby subordinated loans for regulatory capital purposes, **effective April 1, 2000**. On this basis, Form 1 will be amended as follows:

(i) Lines 1 and 2 on Statement B of Form 1 will be deleted and the remaining lines renumbered; and

(ii) the column titled "Standby Subordinated Loan" on Statement G of Form 1 will be deleted along with Note 4.

These amendments to Statement B and G of Form 1 are set out in detail in Attachments #1 and #2 to this notice.

ADOPTION OF CONSENT LETTER

With the elimination of the standby subordinated loan as an acceptable form of regulatory capital, the existing Uniform Standby Subordinated Loan Agreement will be replaced by the Consent Letter. A copy of this letter is included as Attachment #3 to this notice. This new letter will be sent by Association staff to the Member and the Creditor to confirm that the Uniform Subordinated Loan Agreement ("USLA") that they are both parties to has received advance regulatory approval. While the issuance of this letter will not result in an immediate increase in regulatory capital, it will provide the Member firm with the flexibility of being able to draw-down on the USLA in the future to create a subordinated loan and increase regulatory capital without needing to obtain regulatory approval at the time the draw-down is made.

STREAMLINING OF THE APPROVAL PROCESS RELATING TO CONSENT LETTER AND UNIFORM SUBORDINATED LOAN AGREEMENT

Amendments adopted to speed up the approval process for subordinated debt as well as take into consideration the new consent letter are included as Attachment #4.

ADOPTION OF PROVIDER OF CAPITAL CONCENTRATION CHARGE

To ensure that the elimination of Standby Subordinated Debt for regulatory capital purposes is honoured, an anti-avoidance rule is also being adopted, effective April 1, 2000. Without an anti-avoidance rule, it would still remain possible for a Member firm to treat as capital:

- contributions received from an Acceptable Institution that were, in turn, deposited back with the Acceptable Institution; and
- contributions received from all capital providers that were, in turn, lent back to or invested in securities of the capital provider.

Since the economic effect of these transactions is the same as having a standby subordinated loan in place an anti-avoidance rule was made necessary. As a result, the anti-avoidance rule will impose a capital charge where capital contributions made by a capital provider have been returned to the provider of capital by way of a deposit, loan, investment or other method. The mechanics of the concentration charge are set out in the new Schedule 14 to Form 1 (included as Attachment #5) and the calculation of the charge works as follows:

1. Each Member firm **may** maintain an exposure to cash deposits and undersecured loans and security investments with its **each** of its providers of capital (provided they are unrelated) of $10 million without incurring a capital charge (for tsee “Exposure Test #2” below);

2. Each Member firm **may not** maintain an exposure to cash deposits and undersecured loans with **any** of its providers of capital in excess of $50 million without incurring a capital charge (see “Exposure Test #1” below);

3. Each Member firm **may not** maintain an exposure to cash deposits and undersecured loans and security investments with **any** of its providers of capital in excess of 20% of their net allowable assets (see “Exposure Test #2” below);

4. Security positions considered to be an exposure include all debt and equity securities issued by the provider of capital and it’s affiliates (see “Exposure Test #2” below); and

5. Each Member firm may manage its exposures with respect to security positions issued by its providers of capital through the execution of a limited recourse loan agreement. If an approved form of limited recourse debt is used to finance the purchase of provider of capital securities, the amount of the debt extended may be used as an offset against the security positions financed. The amount of the obligation under the debt reported at any time is to be no greater than the current market value of the security positions being financed (see “Exposure Test #2” below).

To determine whether or not a Member firm will be subject to a capital charge due to exposures it has with its provider(s) of capital, two exposure tests have been developed. The first test, (known as “Exposure Test #1”) places a limit on cash deposit and undersecured loan exposures to each provider of capital at $50 million. Any excess exposure determined in this test will result in a dollar for every dollar in excess concentration charge. The second test, (known as “Exposure Test #2”) places an overall limit on all exposures to each provider of capital at the greater of: (i) $10 million dollars; and (ii) 20% of the Member firm’s net allowable assets. Again, any excess exposure determined in this test will result in a dollar for every dollar in excess concentration charge.

The detailed mechanics of these two exposure test calculations are as follows:

Exposure Test #1 - Dollar cap on cash deposits and undersecured loans

The lesser of:

- The capital provided and,
- Short-term undersecured balances with any provider of capital and its affiliates, being:
  - Cash on Deposit with Acceptable Institutions;
  - Cash, held in trust with Acceptable Institutions, due to free credit ratio calculation;
  - Loans - to the degree that they are undersecured relative to normal commercial terms; and
  - Loans - to the degree that they are secured by security positions issued by the provider of capital

  But excluding:
  - Funds deposited in trust for RRSP and other similar accounts; and
  - Where the Member firm is an Introducing Broker under an Introducing / Carrying Broker Arrangement and its provider of capital or provider of capital affiliate is the Carrying Broker, funds held by the Carrying Broker on the Introducing Broker's behalf that represent excess client free credit balances of the Introducing Broker's customers

Shall not exceed fifty million dollars.

Where the lesser of the capital provided and short-term cash and undersecured balances with any capital provider and its affiliates exceeds fifty million dollars, the Member firm shall take positive action on the business day following the business day on which the excess arises to eliminate the excess. If no action is taken, the amount of the excess less any margin already provided on the excess must be immediately provided out of the firm's capital.

AND

Exposure Test #2 – Overall cap on cash deposits and undersecured loans and investments

The lesser of:

- The capital provided and,
- The sum of:
  - Short-term undersecured balances with any provider of capital and its affiliates (as previously described in Exposure Test #1) and,
  - Net investments in any provider of capital and its affiliates, being:
    - ☺ All Security Positions being proprietary interests in certificates of deposit, bankers acceptances, commercial paper, all other debt, all equity or similar instruments, held more than two business days
    - ☺ But excluding security positions financed by the provider of capital through the issuance of a non-recourse debt facility whereby:
      - Pursuant to the facility, the provider of capital finances the entire dollar market value of the security positions, and
      - The facility repayment amount is limited at all times to the current market value of the security positions being financed.

    Less
    - ☺ Security positions sold short provided they are used as part of a valid offset with the security positions included above.
- Less any charge incurred under Exposure Test #1

Shall not exceed the greater of:

- Ten million dollars; and
- 20% of Net Allowable Assets.

Where the lesser of the capital provided and the combined short-term cash and undersecured balances and investments with any provider of capital and its affiliates (net of any reductions taken due to having limited recourse agreements in place or having short positions in securities which may be used an offset for normal margin purposes) exceed the greater of ten million dollars and 20% of Net Allowable Assets the Member firm shall take positive action on the business day following the business day on which the excess arises to eliminate the excess. If no action is taken, the amount of the excess less any margin already provided on the excess must be immediately provided out of the firm's capital.

To illustrate the calculation of the new provider of capital concentration charge, two examples have been prepared and are included with this notice as Attachments #6 and #7.

DEFINITION OF "PROVIDER OF CAPITAL"

For the purposes of calculating the Provider of Capital Concentration Charge set out on Schedule 14 of Form 1, it is necessary to define who may be considered a "provider of capital". The definition of "provider of capital" (as set out in the Notes and Instructions to Schedule 14) is as follows:

> "An individual or entity and its affiliates that provides capital [as defined above in "capital provided"] to a Member firm"

where "capital provided" is defined as:

> "• The face amount of subordinated debt provided by the provider of capital,
>
> • The book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings"

By wording the above definitions in this manner, it is intended that an affiliated group of individuals and entities be considered as an individual provider of capital for the purposes of calculating the Provider of Capital Concentration Charge.

ADOPTION OF LIMITED RECOURSE CALL LOAN AGREEMENT

In order to allow the continuation of certain business activities that Member firms may provide to their providers of capital (i.e., underwriting the issuance of provider of capital securities), a limited recourse call loan agreement has been developed (as draft of this agreement has been included as Attachment #8. This agreement would allow that where:

- a call loan agreement entered into with the provider of capital was used to finance the issuance of provider of capital securities; and
- the repayment amount of the loan is limited to the market value of securities being underwritten,

that the amount payable under the loan could be netted against the position being underwritten held in inventory.

TRANSITIONARY PROVISIONS

Since standby subordinated debt is to be eliminated as regulatory capital effective April 1, 2000, no new standby subordinated debt agreements will be approved during the interim period from now until April 1st. However, during this interim period, the Association has agreed to provide the new consent letter (as set out in Attachment #3) to those Member firms who wish to have their USLA facilities approved in advance. As is the case now, this consent letter along with accompanying approved USLA will only be provided if the Creditor is considered suitable by Association staff.

Any questions regarding this Member Regulation Notice should be directed to:

Richard Corner, Director, Regulatory Policy (416) 943-6908.

PLEASE DISTRIBUTE TO ALL INTERESTED PARTIES IN YOUR FIRM

ATTACHMENT #1

DATE: _____ STATEMENT B

PART I

JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

_____

(Firm Name)

STATEMENT OF NET ALLOWABLE ASSETS AND RISK ADJUSTED CAPITAL

(as at _____ with comparative figures as at _____)

REFERENCE			CURRENT YEAR	PREVIOUS YEAR
1.	A-73	Total financial statement capital	$	$
~~2.~~	~~C-6~~	~~**Add:** Standby subordinated loan~~		
~~3.~~		~~CAPITAL EMPLOYED~~		
~~4.~~2.	A-29	**Deduct**: Non allowable assets		
~~5.~~3.		NET ALLOWABLE ASSETS	$	$
~~6.~~4.		**Deduct**: Minimum capital		
~~7.~~5.		**SUBTOTAL**		
		Deduct – amounts required to fully margin:		
~~8.~~6.	Sch. 1	Loans receivable, securities borrowed and resales		
~~9.~~7.	Sch. 2	Securities owned and sold short		
~~10.~~8.	Sch. 2A	Underwriting concentration		
~~11.~~9.	Sch. 3	Syndicate and joint trading accounts		
~~12.~~10.	Sch. 4	Clients' accounts		
~~13.~~11.	Sch. 5	Brokers and Dealers		
~~14.~~12.	Sch. 7	Loans and repurchases		
~~15.~~13.	Sch. 8	Contingent liabilities		
~~16.~~14.	Sch. 10	Financial institution bond deductible *[greatest under any clause]*		
~~17.~~15.	Sch. 11	Unhedged foreign currencies		
~~18.~~16.	Sch. 12	Commodity futures contracts		
17.	Sch. 14	Provider of capital concentration charge		
~~19.~~18.		Securities held at non-acceptable securities locations *[see note]*		
~~20.~~19.		Unresolved differences *[attach details]*		
~~21.~~20.		Other *[attach details]*		
~~22.~~21.		TOTAL MARGIN REQUIRED *[lines ~~8~~6 through ~~21~~20]*		
~~23.~~22.		SUBTOTAL *[line ~~7~~5 less line ~~22~~21]*		

DATE: _____ STATEMENT B

PART I

JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

~~24.~~23.	Sch. 6A	**Add**: Applicable tax recoveries			
~~25.~~24.		Risk Adjusted Capital before securities concentration charge *[line ~~23~~22 plus line ~~24~~23]*			
~~26.~~25.	Sch. 9	**Deduct:** Securities concentration charge of _____			
	Sch. 6A	less tax recoveries of _____			
~~27.~~26.		RISK ADJUSTED CAPITAL *[line ~~25~~24 less line ~~26~~25]*	$		$

PART I
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

_____

(Firm Name)

STATEMENT OF CHANGES IN SUBORDINATED LOANS FOR THE YEAR ENDED _____

		Investors	Approved Investors	
1.	Balance at last year-end	$_ _ _ _ _ _ _	$_ _ _ _ _ _ _	
2.	Increases during period *[give name of lender and date of increase]*			
	(a)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
	(c)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
	(d)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
	(e)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
	(f)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
3.	Subtotal.	_____	_____	
4.	Decreases during period *[give name of lender and date of decrease]*			
	(a)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
	(b)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
	(c)	_ _ _ _ _ _ _	_ _ _ _ _ _ _	
	(d)	_ _ _ _ _ _	_ _ _ _ _ _	
	(e)	_ _ _ _ _ _	_ _ _ _ _ _	
	(f)	_ _ _ _ _ _	_ _ _ _ _ _	
5.	Subtotal	_____	_____	
6.	Present subordinated loans	$==========	$==========	==========
		A-70	A-69	

NOTES:

1. **At the annual audit date only**, provide an attachment to Statement G showing the amount and the name of the lender for each subordinated loan outstanding. Subordinated debentures issued under a trust debenture should be disclosed in total only.
2. **"subordinated loans"** means approved loans, pursuant to an agreement in writing in a form satisfactory to the appropriate Joint Regulatory Body, obtained from a chartered bank or any other lending institution, industry investor approved as such by the appropriate Joint Regulatory Body, or non-industry investor subject to the applicable approvals of the appropriate Joint Regulatory Body, the payment of which is deferred in favour of other creditors and is subject to regulatory approval.
3. **"industry investor"** - For definition, refer to the regulations of the appropriate Joint Regulatory Body.

Draft: January 10, 2000
INVESTMENT DEALERS ASSOCIATION OF CANADA

CONSENT

TO: _____
(Name of Member)

_____
(Name of Creditor)

RE: **Uniform Subordinated Loan Agreement made the day of , 2000 between the Member, Creditor and the undersigned Institution**

The Institution, which is a party to the Uniform Subordinated Loan Agreement ("USLA") referred to above, a copy of which (including Schedule A thereto) has been executed and delivered by each of the parties, hereby:

1. consents to and approves of the Member and the Creditor, pursuant to By-law 5 of the Institution and the USLA, increasing the amount of the Debt outstanding under the USLA from time to time, provided that any such increase shall be evidenced on or prior to the effective date by the Member and the Creditor executing and delivering to each other and to the Institution a new Schedule A which reflects the increased amount and the terms and conditions of the Debt; and

2. acknowledges that any new Schedule A as executed by the Member and the Creditor in accordance with paragraph 1 and evidencing an increase in the amount of the Debt as permitted thereunder shall be deemed to be effective as between the parties as if it were executed and delivered by the Institution.

This Consent may be withdrawn at any time by the Institution on notice to the parties and, except as expressly set out otherwise herein, nothing in this Consent shall affect or vary the rights and obligations of the parties under the USLA (including, without limitation, restrictions relating to the repayment of the Debt) or the by-laws, regulations, rules, policies or forms of the Institution.

DATED the day of , 2000

[Name of Institution]

By: _____

ATTACHMENT #4

INVESTMENT DEALERS ASSOCIATION OF CANADA

ISSUANCE OF SUBORDINATED DEBT

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. By-law 1 is amended by repealing and replacing the definition of 'approved lender' as follows:

""approved lender" means a chartered bank, an acceptable counterparty or acceptable institution as defined in Form 1, an industry investor, a Member or any other lender so designated by the Board of Directors."

2. By-law 5.2 is repealed and replaced as follows:

"5.2 (1) No Member or holding company of a Member shall issue without the prior approval of the ~~applicable District Council~~ Association:

(a) a security representing subordinated debt ~~to a person other than an approved lender~~;

(b) a restrictive security; or

(c) a limited participation security.

(2) No Member or holding company of a Member shall enter into any agreement to issue subordinated debt in the future without prior approval of the Association."

3. By-law 5.2A is enacted as follows:

"5.2A

(1) A Member who has received Association approval for the issuance of subordinated debt pursuant to By-law 5.2, shall immediately notify the Association of any change in the amount of the funds advanced under the resulting subordinated debt agreement.

(2) A Member shall require approval of the Association prior to any repayment of funds owed pursuant to a subordinated debt agreement."

PASSED AND ENACTED BY THE Board of Directors this day of 1997, to be effective on a date to be determined by Association staff.

ATTACHMENT #5

DATE: _____ SCHEDULE 14

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

_____
(Firm Name)

PROVIDER OF CAPITAL CONCENTRATION CHARGE

		Amount (000's)
A. CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL		
1.	**Cash on deposit with provider of capital**	$
2.	Cash, held in trust with provider of capital, due to free credit ratio calculation	
3.	Loans receivable - undersecured loans receivable from provider of capital relative to normal commercial terms	
4.	Loans receivable - secured loans receivable from provider of capital that are secured by investments in securities issued by the provider of capital	
5.	Securities borrowed - securities borrowing agreements with the provider of capital that are undersecured relative to normal commercial terms	
6.	Securities borrowed - secured securities borrowing agreements with the provider of capital that are secured by investments in securities issued by the provider of capital	
7.	Resale agreements - agreements with the provider of capital that are undersecured relative to normal commercial terms	
8.	**Commissions and fees receivable from the provider of capital**	
9.	Interest and dividends receivable from the provider of capital	
10.	Other receivables from the provider of capital	
12.	Securities lent - agreements with the provider of capital that are overcollateralized relative to normal commercial terms	
13.	Repurchase agreements - agreements with the provider of capital that are overcollateralized relative to normal commercial terms	
LESS:		
14.	Bank overdrafts with the provider of capital	
15.	**TOTAL CASH DEPOSITS AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL**	$

B. CALCULATION OF INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL		
1.	Investments in securities issued by the provider of capital (net of margin provided)	$
LESS:		
2.	Loans payable to provider of capital that are linked to the assets above and are limited recourse	
4.	**TOTAL INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL**	$

C. CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL

1. Financial statement capital provided by provider of capital (including pro-rata share of contributed surplus and retained earnings) $_____

DATE: _____ SCHEDULE 14

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

_____
(Firm Name)

PROVIDER OF CAPITAL CONCENTRATION CHARGE

Amount (000's)

D. NET ALLOWABLE ASSETS

1. **Net Allowable Assets** $ _____

E. EXPOSURE TEST #1 - DOLLAR CAP ON CASH DEPOSITS AND UNDERSECURED LOANS

1. Sec. C, Line 1 **Financial statement capital provided by provider of capital** $ _____
2. Sec. A, Line 15 **Cash deposits and undersecured loans with provider of capital** _____
3. **Financial statement capital redeposited or lent back on an undersecured basis** ***[Minimum of Section E, Line 1 and Section E, Line 2]*** $ _____
4. **Exposure threshold** $ 50,000
5. **Capital requirement** ***[Excess of Section E, Line 3 over Section E, Line 4]*** $ _____

F. EXPOSURE TEST #2 - OVERALL CAP ON CASH DEPOSITS AND UNDERSECURED LOANS AND INVESTMENTS

1. Sec. C, Line 1 **Financial statement capital provided by provider of capital** $ _____
2. Sec. A, Line 15 **Cash deposits and undersecured loans with provider of capital** **$** _____
3. Sec. B, Line 4 **Investments in securities issued by the provider of capital** _____
4. **Total cash deposits and undersecured loans and investments** ***[Section F, Line 2 plus Section F, Line 3]*** $ _____
5. **Financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the provider of capital** ***[Minimum of Section F, Line 1 and Section F, Line 4]*** $ _____

LESS:

6. Sec. E, Line 5 **Capital charge incurred under Exposure Test #1** $
8. **Exposure threshold being the greater of:**
   - **(a)** **Ten million dollars** **$** _____
   - **(b)** **20% of Net Allowable Assets** ***[20% of Section D, Line 1]*** **$** _____

$ _____

TOTAL PROVIDER OF CAPITAL CONCENTRATION CHARGE ***[Section E, Line 5 plus Section F, Line 9]*** $ _____

SCHEDULE 14

NOTES AND INSTRUCTIONS

1. The purpose of this schedule is to measure the exposure a Member firm has to each of its providers of capital (as defined below). As such is the case, a separate copy of this schedule should be completed for each provider of capital where the capital provided is in excess of $10 million.

2. For the purposes of this schedule:
   "capital provided" is:

- **The face amount of subordinated debt provided by the provider of capital, plus**
  - **The book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings**

A "provider of capital" is:

- **An individual or entity and its affiliates that provides capital [as defined above in "capital provided"] to a Member firm**

CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL

Section A, Line 3 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the collateral received] deficiency required under normal commercial terms.

Section A, Line 4 – The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the provider of capital or its affiliates.

Section A, Line 5 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the collateral received for the loan and the amount of the loan receivable or the market value of the securities delivered as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the collateral received] deficiency required under normal commercial terms.

Section A, Line 6 – The amount to be reported on this line refers to the entire loan receivable balance or the market value of the securities delivered as collateral if the only collateral received for the loan is securities issued by the provider of capital or its affiliates.

Section A, Line 7 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the security received] deficiency required under normal commercial terms. If the security received is a security issued by the provider of capital or its affiliates the collateral is assumed to have no value for the purposes of the above calculation.

Section A, Lines 8, 9 and 10 – The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the provider of capital or its affiliates.

Section A, Line 11 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Section A, Line 12 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the market value of the securities received as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

SCHEDULE 14

NOTES AND INSTRUCTIONS

Section A, Line 13 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered pursuant to the repurchase agreement and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Calculation of investments in securities issued by the provider of capital

Section B, Line 1 – Include all investments in securities issued by the provider of capital or its affiliates.

Section B, Line 2 – Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.

Section B, Line 3 – Include only those security positions that are otherwise eligible for offset pursuant to SRO capital requirements.

CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL

Section C, Line 1 – **Include the face amount of subordinated debt provided by the provider of capital, plus the book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings.**

The following is an example of the calculation of the security concentration charge as at December 31, 1999 for a Member firm.

MEMBER FIRM FINANCIAL INFORMATION

The following financial details are known about the firm:

- The firm is 80% owned by a Canadian corporation (known as "Parent" and classified as an "acceptable counterparty" for regulatory purposes). The remaining 20% is owned by firm employees, none of which own more than 5% of the firm
- As at December 31, 1999 the Member firm has (amount in $000's):

Total financial statement capital of	$60,000	
Net allowable assets of		$55,000
Loan receivable from Parent of		$20,000
Investment in securities of the Parent of		$10,000

Calculation of Concentration Charge

The concentration charge has been developed to limit significant exposures to providers of capital. As such is the case, where an individual "provider of capital" has less than $10 million invested in a Member firm, the Member firm is not subject to a concentration charge. So, in this instance, the only "provider of capital" that might be subject to a concentration charge is the Parent [since no other shareholder owns more than 5% or $3 million of the firm].

The concentration charge has two component exposure tests, known as "Exposure Test #1" and Exposure Test #2". Exposure Test #1 requires that cash deposits and undersecured loans with a "provider of capital" not exceed $50 million. In this example, the only exposure is an undersecured loan of $20 million and therefore there is no concentration charge calculated under Exposure Test #1.

Exposure Test #2 requires that all exposures to the "provider of capital" [includes cash deposits, undersecured loans, investments, etc.] not exceed the greater of: $10 million and 20% of the Member firm's net allowable assets. In this example, 20% of net allowable assets is $11 million and so the threshold is set at $11 million. Since the total exposures to the Parent are $30 million, a concentration charge of $19 million arises. The details of this calculation are included in the completed pages of Schedule 14 included with this attachment.

ATTACHMENT #6

DATE: DECEMBER 31, 1999

SCHEDULE 14

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

Example #1 Member Firm
(Firm Name)

PROVIDER OF CAPITAL CONCENTRATION CHARGE

		Amount (000's)
A. CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL		
1.	**Cash on deposit with provider of capital**	$ 0
2.	Cash, held in trust with provider of capital, due to free credit ratio calculation	0
3.	Loans receivable - undersecured loans receivable from provider of capital relative to normal commercial terms	20,000
4.	Loans receivable - secured loans receivable from provider of capital that are secured by investments in securities issued by the provider of capital	0
5.	Securities borrowed - securities borrowing agreements with the provider of capital that are undersecured relative to normal commercial terms	0
6.	Securities borrowed - secured securities borrowing agreements with the provider of capital that are secured by investments in securities issued by the provider of capital	0
7.	Resale agreements - agreements with the provider of capital that are undersecured relative to normal commercial terms	0
8.	**Commissions and fees receivable from the provider of capital**	0
9.	Interest and dividends receivable from the provider of capital	0
10.	Other receivables from the provider of capital	0
12.	Securities lent - agreements with the provider of capital that are overcollateralized relative to normal commercial terms	0
13.	Repurchase agreements - agreements with the provider of capital that are overcollateralized relative to normal commercial terms	0
LESS:		
14.	Bank overdrafts with the provider of capital	0
15.	**TOTAL CASH DEPOSITS AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL**	$ 20,000
B. CALCULATION OF INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL		
1.	Investments in securities issued by the provider of capital (net of margin provided)	$ 10,000
LESS:		
2.	Loans payable to provider of capital that are linked to the assets above and are limited recourse	0
4.	**TOTAL INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL**	$ 10,000

C. CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL

1.	Financial statement capital provided by provider of capital (including pro-rata share of contributed surplus and retained earnings) = 80% x $60,000 or	$ 48,000

DATE: DECEMBER 31, 1999 SCHEDULE 14

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

_____
(Firm Name)

PROVIDER OF CAPITAL CONCENTRATION CHARGE

			Amount (000's)
D. NET ALLOWABLE ASSETS			
1.		**Net Allowable Assets**	$ 55,000
E. EXPOSURE TEST #1 - DOLLAR CAP ON CASH DEPOSITS AND UNDERSECURED LOANS			
1. Sec. C, Line 1		**Financial statement capital provided by provider of capital**	$ 48,000
2. Sec. A, Line 15		**Cash deposits and undersecured loans with provider of capital**	20,000
3.		**Financial statement capital redeposited or lent back on an undersecured basis** ***[Minimum of Section E, Line 1 and Section E, Line 2]***	$ 20,000
4.		**Exposure threshold**	$ 50,000
5.		**Capital requirement** ***[Excess of Section E, Line 3 over Section E, Line 4]***	$ 0
F. EXPOSURE TEST #2 - OVERALL CAP ON CASH DEPOSITS AND UNDERSECURED LOANS AND INVESTMENTS			
1. Sec. C, Line 1		**Financial statement capital provided by provider of capital**	$ 48,000
2. Sec. A, Line 15	**Cash deposits and undersecured loans with provider of capital**	**$** 2	
3. Sec. B, Line 4	**Investments in securities issued by the provider of capital**	**10,000**	
4.		**Total cash deposits and undersecured loans and investments** ***[Section F, Line 2 plus Section F, Line 3]***	$ 30,000
5.		**Financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the provider of capital** ***[Minimum of Section F, Line 1 and Section F, Line 4]***	$ 30,000
LESS:			
6. Sec. E, Line 5		**Capital charge incurred under Exposure Test #1**	$ 0
8.		**Exposure threshold being the greater of:**	
(a)	**Ten million dollars**	**$** 1	
(b)	**20% of Net Allowable Assets** ***[20% of Section D, Line 1]***	**$** 1	
			$ 11,000
TOTAL PROVIDER OF CAPITAL CONCENTRATION CHARGE ***[Section E, Line 5 plus Section F, Line 9]***			$ 19,000

3. The purpose of this schedule is to measure the exposure a Member firm has to each of its providers of capital (as defined below). As such is the case, a separate copy of this schedule should be completed for each provider of capital where the capital provided is in excess of $10 million.

4. For the purposes of this schedule:
   "capital provided" is:

- **The face amount of subordinated debt provided by the provider of capital, plus**
  - **The book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings**

A "provider of capital" is:

- **An individual or entity and its affiliates that provides capital [as defined above in "capital provided"] to a Member firm**

CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL

Section A, Line 3 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the collateral received] deficiency required under normal commercial terms.

Section A, Line 4 – The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the provider of capital or its affiliates.

Section A, Line 5 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the collateral received for the loan and the amount of the loan receivable or the market value of the securities delivered as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the collateral received] deficiency required under normal commercial terms.

Section A, Line 6 – The amount to be reported on this line refers to the entire loan receivable balance or the market value of the securities delivered as collateral if the only collateral received for the loan is securities issued by the provider of capital or its affiliates.

Section A, Line 7 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the security received] deficiency required under normal commercial terms. If the security received is a security issued by the provider of capital or its affiliates the collateral is assumed to have no value for the purposes of the above calculation.

Section A, Lines 8, 9 and 10 – The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the provider of capital or its affiliates.

Section A, Line 11 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Section A, Line 12 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the market value of the securities received as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Section A, Line 13 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered pursuant to the repurchase agreement and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Calculation of investments in securities issued by the provider of capital

Section B, Line 1 – Include all investments in securities issued by the provider of capital or its affiliates.

Section B, Line 2 – Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.

Section B, Line 3 – Include only those security positions that are otherwise eligible for offset pursuant to SRO capital requirements.

CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL

Section C, Line 1 – **Include the face amount of subordinated debt provided by the provider of capital, plus the book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings.**

The following is a second example of the calculation of the security concentration charge as at December 31, 1999 for a Member firm.

MEMBER FIRM FINANCIAL INFORMATION

The following financial details are known about the firm:

- The firm is 90% owned by a Canadian bank (known as "Parent" and classified as an "acceptable institution" for regulatory purposes). The remaining 10% is owned by firm employees, none of which own more than 1% of the firm
- As at December 31, 1999 the Member firm has (amount in $000's):

Total financial statement capital of	$600,000	
Net allowable assets of		$500,000
Cash on deposit with Parent		$75,000
Loan receivable from Parent of		$300,000
Investment in securities of the Parent of		$1,950,000
Limited recourse loans with Parent whose collateral are specifically listed securities of the Parent reported above	($1,200,000)	
Securities sold short used as part of a valid offset with securities of the Parent reported above	($500,000)	

Calculation of Concentration Charge

As in the previous example, in this instance, the only "provider of capital" that might be subject to a concentration charge is the Parent [since no other shareholder owns more than 1% or $6 million of the firm].

The concentration charge has two component exposure tests, known as "Exposure Test #1" and Exposure Test #2". Exposure Test #1 requires that cash deposits and undersecured loans with a "provider of capital" not exceed $50 million. In this example, the exposure totals $375 million and therefore there is a $325 million concentration charge calculated under Exposure Test #1.

Exposure Test #2 requires that all exposures to the "provider of capital" [includes cash deposits, undersecured loans, investments, etc.] not exceed the greater of: $10 million and 20% of the Member firm's net allowable assets. In this example, 20% of net allowable assets is $100 million and so the threshold is set at $100 million. The total exposures to the Parent are $625 million. Some of these exposures do not relate to capital provided by the Parent, since the Parent has only provided $540 million in capital to the Member firm. As a result, the exposure reported for the purposes of the test is $540 million. Finally, under the test, a concentration charge of $115 million arises [$540 million - $100 million threshold - $325 million provided in Exposure Test #1]. The details of this calculation are included in the completed pages of Schedule 14 included with this attachment.

ATTACHMENT #7

DATE: DECEMBER 31, 1999 SCHEDULE 14

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

Example #2 Member Firm
(Firm Name)

PROVIDER OF CAPITAL CONCENTRATION CHARGE

		Amount (000's)
A. CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL		
1.	**Cash on deposit with provider of capital**	$ 75,000
2.	Cash, held in trust with provider of capital, due to free credit ratio calculation	0
3.	Loans receivable - undersecured loans receivable from provider of capital relative to normal commercial terms	300,000
4.	Loans receivable - secured loans receivable from provider of capital that are secured by investments in securities issued by the provider of capital	0
5.	Securities borrowed - securities borrowing agreements with the provider of capital that are undersecured relative to normal commercial terms	0
6.	Securities borrowed - secured securities borrowing agreements with the provider of capital that are secured by investments in securities issued by the provider of capital	0
7.	Resale agreements - agreements with the provider of capital that are undersecured relative to normal commercial terms	0
8.	**Commissions and fees receivable from the provider of capital**	0
9.	Interest and dividends receivable from the provider of capital	0
10.	Other receivables from the provider of capital	0
12.	Securities lent - agreements with the provider of capital that are overcollateralized relative to normal commercial terms	0
13.	Repurchase agreements - agreements with the provider of capital that are overcollateralized relative to normal commercial terms	0
LESS:		
14.	Bank overdrafts with the provider of capital	0
15.	**TOTAL CASH DEPOSITS AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL**	$ 375,000
B. CALCULATION OF INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL		
1.	Investments in securities issued by the provider of capital (net of margin provided)	$ 1,950,000
LESS:		
2.	Loans payable to provider of capital that are linked to the assets above and are limited recourse	1,200,000
4.	**TOTAL INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL**	$ 250,000

C. CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL

1.	Financial statement capital provided by provider of capital (including pro-rata share of contributed surplus and retained earnings) = 90% x $600,000	$ 540,000
	or	

_____
(Firm Name)

PROVIDER OF CAPITAL CONCENTRATION CHARGE

			Amount (000's)
D. NET ALLOWABLE ASSETS			
1.		**Net Allowable Assets**	$ 500,000
E. EXPOSURE TEST #1 - DOLLAR CAP ON CASH DEPOSITS AND UNDERSECURED LOANS			
1.	Sec. C, Line 1	**Financial statement capital provided by provider of capital**	$ 540,000
2.	Sec. A, Line 15	**Cash deposits and undersecured loans with provider of capital**	375,000
3.		**Financial statement capital redeposited or lent back on an undersecured basis** ***[Minimum of Section E, Line 1 and Section E, Line 2]***	$ 375,000
4.		**Exposure threshold**	$ 50,000
5.		**Capital requirement** ***[Excess of Section E, Line 3 over Section E, Line 4]***	$ 325,000
F. EXPOSURE TEST #2 - OVERALL CAP ON CASH DEPOSITS AND UNDERSECURED LOANS AND INVESTMENTS			
1.	Sec. C, Line 1	**Financial statement capital provided by provider of capital**	$ 540,000
2.	Sec. A, Line 15	**Cash deposits and undersecured loans with provider of capital** **$ 375**	
3.	Sec. B, Line 4	**Investments in securities issued by the provider of capital** **250,000**	
4.		**Total cash deposits and undersecured loans and investments** ***[Section F, Line 2 plus Section F, Line 3]***	$ 625,000
5.		**Financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the provider of capital** ***[Minimum of Section F, Line 1 and Section F, Line 4]***	$ 540,000
LESS:			
6.	Sec. E, Line 5	**Capital charge incurred under Exposure Test #1**	$ 325,000
8.		**Exposure threshold being the greater of:**	
	(a)	**Ten million dollars** **$ 1**	
	(b)	**20% of Net Allowable Assets** ***[20% of Section D, Line 1]*** **$ 10(**	
			$ 100,000
		TOTAL PROVIDER OF CAPITAL CONCENTRATION CHARGE ***[Section E, Line 5 plus Section F, Line 9]***	$ 440,000

5. The purpose of this schedule is to measure the exposure a Member firm has to each of its providers of capital (as defined below). As such is the case, a separate copy of this schedule should be completed for each provider of capital where the capital provided is in excess of $10 million.

6. For the purposes of this schedule:
   "capital provided" is:

- **The face amount of subordinated debt provided by the provider of capital, plus**
  - **The book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings**

A "provider of capital" is:

- **An individual or entity and its affiliates that provides capital [as defined above in "capital provided"] to a Member firm**

CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL

Section A, Line 3 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the collateral received] deficiency required under normal commercial terms.

Section A, Line 4 – The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the provider of capital or its affiliates.

Section A, Line 5 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the collateral received for the loan and the amount of the loan receivable or the market value of the securities delivered as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the collateral received] deficiency required under normal commercial terms.

Section A, Line 6 – The amount to be reported on this line refers to the entire loan receivable balance or the market value of the securities delivered as collateral if the only collateral received for the loan is securities issued by the provider of capital or its affiliates.

Section A, Line 7 – The undersecured amount to be reported on this line refers to any deficiency between the market value of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the market value of the security received] deficiency required under normal commercial terms. If the security received is a security issued by the provider of capital or its affiliates the collateral is assumed to have no value for the purposes of the above calculation.

Section A, Lines 8, 9 and 10 – The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the provider of capital or its affiliates.

Section A, Line 11 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Section A, Line 12 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the market value of the securities received as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Section A, Line 13 – The overcollateralized amount to be reported on this line refers to any deficiency between the market value of the collateral delivered pursuant to the repurchase agreement and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

Calculation of investments in securities issued by the provider of capital

Section B, Line 1 – Include all investments in securities issued by the provider of capital or its affiliates.

Section B, Line 2 – Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.

Section B, Line 3 – Include only those security positions that are otherwise eligible for offset pursuant to SRO capital requirements.

CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL

Section C, Line 1 – **Include the face amount of subordinated debt provided by the provider of capital, plus the book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings.**

ATTACHMENT #8
Draft: January 10, 2000

NOTE TO DRAFT: This draft Limited Recourse Call Loan Agreement has been prepared based on the assumptions and description set out in the IDA's Bulletin No. 2683 and related Regulatory Notice RN-006 relating to the elimination of standby subordinated debt for regulatory capital purposes and a related account concentration charge for Member firms' credit exposure to their providers of capital. The purpose of this draft is to describe the legal rights and obligations between a Member and a provider of capital in respect of unsecured call loans with limited recourse to the Member. An agreement containing the material terms of the draft will be required in order to qualify for capital relief as contemplated by the new account concentration charge in the revised Joint Regulatory Financial Questionnaire and Report. A single agreement may be used for each call loan made or, for Members with several outstanding call loans from time to time with a provider of capital such as a bank parent, the draft contemplates a "master" agreement.

LIMITED RECOURSE CALL LOAN AGREEMENT

made as of the day of , 20λ .

BETWEEN:

λ, a λ (the "Lender")

- and -

λ, a corporation incorporated pursuant to the laws of λ (the "Member")

RECITALS:

(A) THE LENDER HAS AGREED TO MAKE AVAILABLE TO THE MEMBER LOANS IN THE AMOUNT AND ON THE TERMS PROVIDED IN THIS AGREEMENT AND SCHEDULE 1 HERETO, THE PROCEEDS OF WHICH ARE TO BE USED IN THE BUSINESS OF THE MEMBER FOR THE ACQUISITION OR FINANCING OF SECURITIES ISSUED BY THE LENDER, WHICH FINANCED SECURITIES REPRESENT CLAIMS UPON THE LENDER IN ACCORDANCE WITH THEIR TERMS.

(b) The Member is a member of a self-regulatory organization and is required to comply with the SRO Rules (as defined) relating, among other things, to regulatory capital.

(c) Pursuant to the SRO Rules, the concentration of financial exposure of the Member to the Lender as a provider of capital and to its affiliates, directly or indirectly, is to be limited, and shall require a capital charge to the Member, subject to reduction in respect of certain Loans made by the Lender to the Member in accordance with this Agreement.

(d) The Member wishes to reduce the capital charges referred to in Recital (c) by limiting the recourse the Lender may have in respect of certain Loans relating to Financed Securities acquired by the proceeds of such Loans as identified on Schedule 1 from time to time.

IN CONSIDERATION of these premises and other good and valuable consideration, the parties agree as follows:

1. **Loan.** The Lender may advance from time to time by way of Loan to the Member the amounts identified in Schedule 1 (as it may be amended from time to time) on the terms specified therein and for the purpose of acquiring the Financed Securities of the Lender as specified in Schedule 1.

2. **Limitation on Recourse.** The Lender, at any time whether before or after default, maturity or judgment, shall only be entitled to:

   (i) require or enforce repayment or satisfaction of any Loan, or credit or benefit in lieu thereof, in any manner, directly or indirectly; or

   (ii) effect recourse in respect of any Loan against the assets, property or undertaking of the Member in any forum or by any means (including, without limitation, by execution, garnishment, realization, claim in bankruptcy or insolvency, set-off or netting of any kind, reduction or compromise of debts, consolidation of accounts or any other manner which may result in the satisfaction or extinguishment of the Loan or any part of it);

to the extent and in an amount not to exceed the market value of the Financed Securities of the Lender identified in Schedule 1 in respect of that Loan as at any time or times when such repayment is required or recourse is to be effective. Any judgment or order obtained by the Lender in any legal process or on realization undertaken by it shall only attach, bind or otherwise adversely affect the assets, property or undertaking of the Member to the extent of the limit specified above, and the Lender shall take such actions as may be reasonably necessary to ensure that such assets, property and undertaking are not attached, bound or affected beyond the limit specified including the delivery of such releases, discharges and other documents as may be required in that regard. Any payment or benefit received by the Lender contrary to this Section 2 shall be held in trust for the Member and repaid or credited to it, as the case may be.

4. **Precedence.** This agreement shall have precedence as between the Member, the Lender and the SRO over any other present or future agreement, security document, arrangement or legal rights between or affecting such parties, notwithstanding any term thereof to the contrary.

5. **Notice.** Any notice or communication hereunder which is given in writing may be effectively given by delivering the same or transmission by facsimile or other electronic means which can be recorded and retrieved, to the Lender as follows:

   λ

   and to the Member as follows:

   λor to such address as any of the parties shall have specified by notice given to the other of them.

6. **Enurement.** This Agreement shall extend to and enure to the benefit of and be binding upon the successors and assigns of any of the parties.

7. **Assignment.** This Agreement shall not be assigned at any time by any party hereto without the prior written consent of the other party.

8. **Entire Agreement.** The parties acknowledge and agree that this Agreement contains, save as expressly herein, the entire agreement between the parties and that there are no other terms and conditions to the Agreement.

9. **Governing law.** This Agreement shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

10. **English Language**. This Agreement has been drawn up in the English language at the request of the parties. Les parties ont requis que la présente entente soit rédigée en anglais.

11. **Definitions.** In this Agreement the terms set out below shall have the meanings indicated. Subject to the preceding sentence, this Agreement is intended to be interpreted in accordance with and be consistent with the SRO Rules.

"Financed Securities" means the securities of a provider of capital financed by each Loan as indentified on Schedule 1.

"Lender" means the party identified as the Lender in this Agreement.

"Loan" means the principal sum and any interest thereon outstanding and payable from time to time in accordance with Section 1 and identified on Schedule 1.

"Schedule 1" means the Schedule marked "Schedule 1" attached to this Agreement and bearing the most recent date and signed by the parties hereto.

"SRO" means the sponsoring self-regulatory organization of Canadian Investor Protection Fund having prime audit jurisdiction over the Member.

"SRO Rules" means the by-laws, regulations, rules, forms and regulatory notices and directions of the SRO in effect from time to time.

EXECUTED AND DELIVERED BY:

[Lender]

By: _____

By: _____

[Member]

By: _____

By: _____

SCHEDULE 1

to

Limited Recourse Call Loan Agreement dated λ, 20λ made between λ as the Member and λ as the Lender

Amount of Loan	Date	Repayment terms, interest, etc.	Financed Securities[1]		Signed by Authorized Officer	
			Description	Amount	Lender	Member

[1] Financed Securities must be eligible for inclusion in Line 1 of Section B of Schedule 14 of the JRFQR.