

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AMENDMENTS TO DEALER MEMBER RULE 1200 AND TO FORM 1 RELATING TO THE CLIENT FREE CREDIT
CASH USAGE LIMIT AND CLIENT FREE CREDIT SEGREGATION REQUIREMENTS

BLACK-LINE COPY OF AMENDMENTS TO CURRENT DEALER MEMBER RULE 1200 AND TO CURRENT FORM

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Dealer Member Rule 1200.3 – Amendment #1

1200.3. No Dealer Member shall use in the conduct of its business clients' free credit balances in excess of the ~~aggregate~~greater of the following amounts:

(a) ~~Eight~~a) General free credit limit:

Twelve times the ~~net allowable assets~~early warning reserve amount of the Dealer Member; ~~plus~~or

(b) Margin lending adjusted free credit limit:

(b) ~~Four times the~~Twenty times the early warning reserve amount of the Dealer Member for margin lending purposes plus twelve times the remaining early warning reserve ~~of the Dealer Member~~amount for all other purposes, where the remaining early warning reserve amount equals the early warning reserve amount minus 1/20th of the total settlement date client margin debit amount.

Each Dealer Member shall hold an amount at least equal to the amount of clients' free credit balances in excess of the foregoing either :

(a) ~~c~~d in cash segregated in trust for clients in a separate account or accounts with an acceptable institution; or

(b) ~~d~~d segregated and separate and apart ~~as from~~from the Dealer Member's property in Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills and other securities with a maturity of ~~less than~~or less of or guaranteed by the Government of Canada, a province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the ~~Basle~~Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively).

Dealer Member Rule 1200.4 – Amendment #2

1200.4. Dealer Members shall determine at least weekly, but more frequently if required, the amounts required to be segregated in accordance with Rule 1200.3.

Dealer Member Rule 1200.6 – Amendment #3

- 1200.6. In the event that a deficiency exists in amounts of free credit balances required to be segregated by a Dealer Member, the Dealer Member ~~shall expeditiously take the most appropriate action to rectify~~ must correct the segregation deficiency within 5 business days following the determination of the deficiency.

Form 1: Schedule 2 and Notes and instructions, Line 9; Schedule 4, Line 5; and Statement D (attached) – Amendments #4 - #7

FORM 1, PART II – SCHEDULE 2

DATE: _____

(Dealer Member Name)

ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE

CATEGORY	MARKET VALUE		MARGIN REQUIRED C\$'000
	LONG C\$'000	SHORT C\$'000	
1. Money market	-----	-----	-----
Accrued interest	-----	-----	NIL
TOTAL MONEY MARKET	-----	-----	-----
2. Debt	-----	-----	-----
Accrued interest	-----	-----	NIL
TOTAL DEBT	-----	-----	-----
3. Equities	-----	-----	-----
Accrued interest on convertible debentures	-----	-----	NIL
TOTAL EQUITIES	-----	-----	-----
4. Options	-----	-----	-----
5. Futures	NIL	NIL	-----
6. OTC derivatives	-----	-----	-----
7. Registered traders, specialists and market makers	NIL	NIL	-----
8. TOTAL	-----	-----	-----
		A-52	B-10
9. LESS: Securities, including accrued interest, segregated for client free credit ratio calculation	-----	-----	-----
	A-8 and D-8	Sec. D-	
	<u>2</u>		
10. Adjusted TOTAL	-----	-----	-----
	A-7		

SUPPLEMENTARY INFORMATION

11. Market value of securities included above but held on deposit as variable base deposits or margin deposits with *acceptable clearing corporations or regulated entities* or as a comfort deposit with a carrying broker
12. Margin reduction from offsets against Trader reserves and PDO guarantees

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FORM 1, PART II – SCHEDULE 2

NOTES AND INSTRUCTIONS

Valuation and margin rates

All securities are to be valued at market (see General Notes and Definitions) as of the reporting date. The margin rates to be used are those outlined in the Corporation rules.

All securities owned and sold short

Schedule 2 summarizes **all** securities owned and sold short by the categories indicated. Details that must be included for each category are total long *market value*, total short *market value* and total margin required as indicated.

Margining of option positions

Where the Dealer Member utilizes the computerized options margining program of a recognized Exchange operating in Canada, the margin requirement produced by such program may be used provided the positions in the Dealer Member's records agree with the positions in the Exchange computer. No details of such positions are to be reported if the programs are employed. Details of any adjustments made to the margin calculated by an Exchange computer-margining program must be provided. For the purposes of this paragraph, recognized Exchange means The Montreal Exchange.

Request for detailed information

The Examiners and/or Auditors of the Corporation may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

Margin offsets

Where there are margin offsets between categories, the residual should be shown in the category with the larger initial margin required before offsets.

Line 1 - Money market is to include Canadian & US Treasury Bills, Bankers Acceptances, Bank paper (Domestic & Foreign), Municipal and Commercial Paper or other similar instruments.

Supplementary instructions for reporting money market commitments:

"Market Price" for money market commitments [fixed-term repurchases, calls, etc.] shall be calculated as follows:

- (i) Fixed date repurchases [no borrower call feature] - the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
- (ii) Open repurchases [no borrower call feature] - prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (i) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
- (iii) Repurchase with borrower call features - the market price is the borrower call price. No margin is required where the total consideration for which the holder can put the security back to the dealer is less than the total consideration for which the dealer may put the security back to the issuer. However, where a holder consideration exceeds dealer consideration [the dealer has a loss], the margin required is the lesser of:
 - (a) the prescribed rate appropriate to the term of the security, and
 - (b) the spread between holder consideration and dealer consideration [the loss] based on the call features subject to a minimum of 1/4 of 1% margin.

Line 7 - Registered traders, specialists and market makers margin requirements are:

- (i) The minimum margin requirement for each TSX registered trader is \$50,000.
- (ii) The minimum margin requirement for each MX registered specialist is the lesser of \$50,000 or an amount sufficient to assume a position of twenty board lots of each security in which such specialist is registered, subject to a maximum of \$25,000 per issuer.

FORM 1, PART II – SCHEDULE 2
NOTES AND INSTRUCTIONS [Continued]

(iii) The market maker minimum margin requirement is for the TSX \$50,000 for each specialist appointed and for the MX \$10,000 for each security and/or class of options appointed (not to exceed \$25,000 for each market maker in each preceding case). No minimum margin is required where the market maker does not have an appointment.

The above-noted minimum margin for each registered trader, specialist, or market maker may be applied as an offset to reduce any margin on positions held long or short in the registered trading account of such registered trader, specialist or market maker. It cannot be used to offset margin required for any other registered trader, specialist or market maker or for any other security positions of the Dealer Member.

The *market values* related to positions in registered traders, specialists and market maker accounts should be included in the appropriate categories in the preceding lines of the Schedule. Related margin in excess of the minimum margin reported on this line should also be included in the preceding lines.

Line 9 - The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a ~~party to~~ member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively), which are segregated and held separate and apart ~~as from~~ the Dealer Member's property.

Line 12 - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the Dealer Member and the trader permitting the Dealer Member to recover realized or unrealized losses from the IA reserve account. Include margin reductions arising from guarantees relating to inventory accounts by Partners, Directors, and Officers of the Dealer Member (PDO Guarantees).

FORM 1, PART II – SCHEDULE 4

DATE: _____

(Dealer Member Name)

ANALYSIS OF CLIENTS' TRADING ACCOUNTS LONG AND SHORT

CATEGORY	BALANCES		AMOUNT REQUIRED TO FULLY MARGIN C\$'000
	DEBIT C\$'000	CREDIT C\$'000	
1. <i>Acceptable institutions</i>	_____	_____	_____
2. <i>Acceptable counterparties</i>	_____	_____	_____
3. Other clients:			
(a) Margin accounts	_____	_____	_____
(b) Cash accounts	_____	_____	_____
(c) Futures accounts	_____	_____	_____
(d) Unsecured debits and shorts	_____	N/A	_____
4. Margin on extended settlements	N/A	N/A	_____
5. Free credits	N/A	_____	N/A
		D-4 Sec. A-2	
5. (a) Free credits, pending trades [if applicable]	N/A		N/A
6. RRSP and other similar accounts	_____	_____	_____
7. Less - allowance for bad debts	_____	_____	_____
8. TOTAL	_____	_____	_____
	A-9	A-53	B-12

9. **SUPPLEMENTARY DISCLOSURE:**

(a) NAME OF RRSP TRUSTEE(S)

1.	
2.	
3.	

(b) Total margin reductions from offsets against IA reserves and PDO guarantees

FORM 1, PART I – STATEMENT D

(Dealer Member Name)

STATEMENT OF FREE CREDIT SEGREGATION AMOUNT

at _____

REFERENCE	NOTES	(CURRENT YEAR) C\$'000
AMOUNT REQUIRED TO SEGREGATE: C\$'000		
1. ~~B-6~~ Net allowable assets of \$ _____ multiplied by 8		
2. ~~C-13~~ Early warning reserve of \$ _____ multiplied by 4		
3	FREE CREDIT LIMIT [Lines 1 plus 2]	
A. AMOUNT REQUIRED TO SEGREGATE BASED ON GENERAL FREE CREDIT LIMIT		
General client free credit limit		
1. ~~C-13~~ Early warning reserve of \$ _____ multiplied by 12 [Report NIL if amount is negative]		
Less client free credit balances:		
4. ~~2~~ Sch.4 Dealer Member's own [see note]		
5. ~~3~~ Carried For Type 3 Introducers		
4.	Total client free credit balances [Section A, Line 2 plus Section A, Line 3]	
6. ~~5~~	AMOUNT REQUIRED TO SEGREGATE BASED ON GENERAL CLIENT FREE CREDIT LIMIT [NIL if Line 3 exceeds Section A, Line 4 plus minus Section A, Line 5; 1; report NIL if result is negative; see note]	
B. AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT		
AMOUNT IN SEGREGATION:		
Client free credit limit for margin lending purposes		
1. ~~C-13~~ Early warning reserve of \$ _____ multiplied by 20 [Report NIL if amount is negative]		
Less client free credit balances used to finance client margin loans:		
2. Total settlement date client margin debit balances		
3. Total client free credit balances [Include amount from Section A, Line 4 above]		
4. Subtotal - Client free credit balances used to finance client margin loans [Lesser of Section B, Line 2 and Section B, Line 3]		
5. Amount required to segregate relating to margin lending [Section B, Line 4 minus Section B, Line 1; report NIL if result is negative]		
Free credit limit for all other purposes		
6. ~~C-13~~ Early warning reserve [Report NIL if amount is negative]		
7. Total settlement date client margin debit balances divided by 20		
8. Portion of early warning reserve available to support all other uses of client free credits [Section B, Line 6 minus Section B, Line 7; report NIL if result is negative]		

FORM 1, PART I – STATEMENT D

9.	Client free credit limit for all other purposes [Section B, Line 8 multiplied by 12]	
10.	Client free credits not used to finance margin loans [Section A, Line 4 minus Section B, Line 4]	
11.	Amount required to segregate relating to all other purposes [Section B, Line 10 minus Section B, Line 9; report NIL if result is negative]	
12.	AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT [Section B, Line 5 plus Section B, Line 11]	
C. AMOUNT REQUIRED TO SEGREGATE		
1.	Amount required to segregate based on general client free credit limit [Section A, Line 5]	
2.	Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 12]	
3.	AMOUNT REQUIRED TO SEGREGATE [Lesser of Section C, Line 1 and Section C, Line 2 if Section B completed; otherwise Section C, Line 1]	
D. AMOUNT IN SEGREGATION:		
~~7~~ 1	A-3 Client funds held in trust in an account with an <i>acceptable institution</i> [see note]	
~~8~~ 2	Sch.2 Market value of securities owned and in segregation [see note]	
~~9~~ 3	TOTAL AMOUNT IN SEGREGATION [Lines ~~7~~ Section D, Line 1 plus ~~8~~ Section D, Line 2]	
~~10~~ 4	NET SEGREGATION EXCESS (DEFICIENCY) [Section D, Line ~~6~~ less ~~3~~ minus Section C, Line ~~9~~ 3, see note]	

NOTES:

Line 3 – If negative, then Line 6 equals Line 4 plus Line 5, i.e. Dealer Member is required to segregate 100% of client free credits. **General** – The client free credit limit and segregation requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests.

Section A, Lines 42 and 53 - Free credit balances in RRSP and other similar accounts should not be included. Refer to Schedule 4 - Notes and Instructions for discussion of trade versus settlement date reporting of free credit balances. For purposes of this statement, a free credit is:

- (a) For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.
- (b) For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open futures contracts and/or futures contracts option positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.

Section A, Line 65 - If Nil, no further calculation on this Statement need be done.

Section B, Line 2 - Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.

Section D, Line 71 - The trust must be an obligation binding the Dealer Member (the trustee) to deal with the free credits over which it has control (the trust property), for the benefit of the client (the beneficiary). The trust property must be clearly identified as such even if residing with an *acceptable institution*.

FUNDS HELD IN TRUST FOR RRSP AND OTHER SIMILAR ACCOUNTS ARE NOT TO BE INCLUDED IN THIS CALCULATION.

FORM 1, PART I – STATEMENT D

Section D, Line 82 - The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, of or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a ~~party to~~ member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively) which are segregated and held separate and apart ~~as from~~ the Dealer Member's property.

Section D, Line 104 - If negative, then a segregation deficiency exists, and the Dealer Member must ~~expeditiously take the most appropriate action required to settle~~ correct the segregation deficiency within 5 business days following the determination of the deficiency. The Dealer Member must provide an explanation of how the deficiency was corrected as well as the date of correction.