

GUIDANCE NOTE 4150-1
CICA ACCOUNTING STANDARDS FOR FINANCIAL INSTRUMENTS

[\[LINK Section 4151\]](#)

This Guidance Note 4150-1 helps Dealer Members apply Canadian Institute of Chartered Accountants (CICA) accounting standards for *financial instruments*. A Dealer Member or its auditor must apply these standards when preparing the financial filings required by Section 4151. Under the CICA accounting standards, a Dealer Member must identify all of its *financial instruments* to ensure the terms and conditions of financial and non-financial contracts are understood, appropriately classified, and documented. The financial instrument classification worksheet is attached to this Guidance Note at Appendix A.

A Dealer Member must classify each financial and non-financial contract into one of five categories in its internal accounting policies. For each of the categories, the CICA accounting standards also prescribe measurement methods for assets and obligations, and methods of income recognition for *financial instruments*. For further information on these CICA standards and definitions, a Dealer Member should review the CICA Handbook (HB).

Although Guidance Note 4150-1 gives guidance for a Dealer Member, it does not cover everything in the CICA accounting standards. For example, it does not cover accounting treatment for securities with embedded options and non-financial instruments with embedded options. Consequently, a *Dealer Member's auditor* can provide professional accounting advice to the Dealer Member on such matters.

APPENDIX A

CICA Section 3855 - Financial Instruments Classification Work Sheet for Dealer Members

Form 1 – Statement A

STATEMENT OF ASSETS

Reference		Categories	Initial measurement	Subsequent measurement	Gains and losses (Note 4)
LIQUID ASSETS:					
1	Cash on deposit with Acceptable Institutions	Held for trading	FMV	FMV	P&L
2	Funds deposited in trust for RRSP and other similar accounts	Held for trading	FMV	FMV	NA
3. Stmt. D	Cash, held in trust with Acceptable Institutions, due to free credit ratio calculation	Held for trading	FMV	FMV	NA
4	Variable base deposits and margin deposits with Acceptable Clearing Corporations <i>[cash balances only]</i>	Held for trading	FMV	FMV	P&L
5	Margin deposits with Regulated Entities <i>[cash balances only]</i>	Held for trading	FMV	FMV	P&L
6. Sch.1	Loans receivable, securities borrowed and resold	Held for trading	FMV	FMV ¹	P&L
7. Sch.2	Securities owned – at market value	Held for trading	FMV	FMV	P&L
	Securities owned – not reliably measurable	Available for sale	FMV	Cost	P&L
8. Sch.2	Securities owned and segregated due to free credit ratio calculation	Held for trading	FMV	FMV	P&L
9	Syndicate and joint trading accounts	Held for trading	FMV	FMV	P&L
10. Sch.4	Clients' accounts	Receivable	FMV	Amortized cost	P&L
11. Sch.5	Brokers and dealers trading balances	Receivable	FMV	Amortized cost	P&L

¹ Default regulatory option

ATTACHMENT B

Reference		Categories	Initial measurement	Subsequent measurement	Gains and losses (Note 4)
12	Receivable from carrying broker or mutual fund	Receivable	FMV	Amortized cost	P&L
13	TOTAL LIQUID ASSETS				

OTHER ALLOWABLE ASSETS (RECEIVABLES FROM ACCEPTABLE INSTITUTIONS):

14. Sch.6	Recoverable and overpaid income taxes	Scope exception	-	- ²	
15	Recoverable and overpaid taxes	Scope exception	-	- ³	
16	Commissions and fees receivable	Receivable	FMV	Amortized cost	P&L
17	Interest and dividends receivable	Receivable	FMV	Amortized cost	P&L
18	Other receivables <i>[attach details]</i>	Receivable	FMV	Amortized cost	P&L
19	TOTAL OTHER ALLOWABLE ASSETS				

NON ALLOWABLE ASSETS

20	Other deposits with Acceptable Clearing Corporations <i>[cash or market value of securities lodged]</i>	Held for trading	FMV	FMV	P&L
21	Deposits and other balances with non-acceptable clearing corporation <i>[cash or market value of securities lodged]</i>	Held for trading	FMV	FMV	P&L
22	Commissions and fees receivable	Receivable	FMV	Amortized cost	P&L
23	Interest and dividends receivable	Receivable	FMV	Amortized cost	P&L
24	Fixed assets – at depreciated value	Scope exception	-	-	
25	Stock exchange seats (for Bourse shares)	GAAP departure	Cost	Cost	P&L

² CICA HB Section 2465

³ CICA HB Section 3465

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Reference		Categories	Initial measurement	Subsequent measurement	Gains and losses (Note 4)
26	Capitalized leases	Scope exception	-	-	-
27	Investments in subsidiaries and affiliates	GAAP departure	Cost or equity method	Cost or equity method	Note 2
	Advances to subsidiaries and affiliates	Receivable	FMV	Amortized cost	
28	Other assets <i>[attach details]</i>				P&L
	Prepaid expenses	Scope exception	-	- ⁴	
	Future tax assets (FTA)	Scope exception	-	- ⁵	
	Cash surrender value of life insurance	Receivable	FMV	Amortized cost	-
	Intangibles	Scope exception	-	- ⁶	P&L
	Deferred charges	Scope exception	-	- ⁷	-
	Advances to employees	Receivable	FMV	Amortized cost	-
	Other receivables from other than Acceptable Institutions	Receivable	FMV	Amortized cost	P&L
	Cash on deposit with non-Acceptable Institutions	Held for trading	FMV	FMV	P&L
29	TOTAL NON ALLOWABLE ASSETS				
30	TOTAL ASSETS		\$	\$	\$

STATEMENT OF LIABILITIES AND SHAREHOLDER/PARTNER CAPITAL

Reference	Categories	Initial measurement	Subsequent measurement	Gains and losses (Note 4)
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CURRENT LIABILITIES:

⁴ CICA HB Section 3040

⁵ CICA HB Section 3465

⁶ CICA HB Section 2063

⁷ CICA HB Section 1510

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Reference		Categories	Initial measurement	Subsequent measurement	Gains and losses (Note 4)
51. Sch.7	Overdrafts, loans, securities loaned and repurchases	Held for Trading	FMV	FMV ⁸	P&L
52. Sch.2	Securities sold short – at market value	Held for Trading	FMV	FMV	P&L
	Securities sold short – not reliably measurable	Available for Sale	FMV	Cost	P&L
53	Syndicate and joint trading accounts	Held for Trading	FMV	FMV	P&L
54. Sch.4	Clients' accounts	Other Financial Liability	FMV	Amortized Cost	P&L
55. Sch.5	Brokers and dealers	Other Financial Liability	FMV	Amortized Cost	P&L
56. Sch.6	Income taxes payable	Scope Exception	-	- ⁹	
57. Sch.6	Future Tax Liabilities – current portion	Scope Exception	-	- ¹⁰	
58	Bonuses payable	Other Financial Liability	FMV	Amortized Cost	P&L
59	Accounts payable and accrued expenses	Other Financial Liability	FMV	Amortized Cost	P&L
60	Capital leases and lease-related liabilities – current portion	Scope Exception	-	- ¹¹	-
61	Other current liabilities <i>[attach details]</i>				
	Unclaimed dividends and interest	Other Financial Liability	FMV	Amortized Cost	P&L
	Due to carrying broker	Other Financial Liability	FMV	Amortized Cost	P&L

⁸ Default regulatory option

⁹ CICA HB Section 3465

¹⁰ CICA HB Section 3465

¹¹ CICA HB Section 3065

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Reference		Categories	Initial measurement	Subsequent measurement	Gains and losses (Note 4)
	Corporate finance liabilities	Other Financial Liability	FMV	Amortized Cost	P&L
	Principal and agent liabilities	Other Financial Liability	FMV	Amortized Cost	P&L
62	TOTAL CURRENT LIABILITIES				
LONG TERM LIABILITIES					
63. Sch.6	Non-current future tax liability	Scope Exception	-	- ¹²	-
64	Non-current portion of capitalized leases and lease-related liabilities	Scope Exception	-	- ¹³	-
65	Other long-term liabilities <i>[attach details]</i>	Other Financial Liability	FMV	Amortized Cost	P&L
66	TOTAL LONG-TERM LIABILITIES				
67	TOTAL LIABILITIES <i>[line 62 plus line 66]</i>				
FINANCIAL STATEMENT CAPITAL:					
68	Non-current portion of capitalized leases qualifying as capital <i>[see note]</i>	Line item not applicable	-	-	-
69. G-6	Subordinated loans – approved non-industry investors	GAAP departure	-	Note 1	-
70. G-6	Subordinated loans – industry investors	GAAP departure	-	Note 1	-
71. F-A-3	Capital	Scope Exception	-	- ¹⁴	
72. F-C-3	Retained earnings or undivided profits	GAAP departure	-	Note 1	Note 3
73	TOTAL FINANCIAL STATEMENT CAPITAL				

¹² CICA HB Section 3465

¹³ CICA HB Section 3065

¹⁴ CICA HB Section 3420

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Reference		<u>Categories</u>	<u>Initial measurement</u>	<u>Subsequent measurement</u>	<u>Gains and losses (Note 4)</u>
74	TOTAL LIABILITIES AND CAPITAL		\$	\$	\$

Notes

- Note 1: *Default regulatory requirement – GAAP departure which requires disclosed basis of accounting policy in note 2 of the financial statements.*
- Note 2: *Accounting for equity pick-up or the unrealized gain or loss on the foreign exchange translation of self-sustaining subsidiaries.*
- Note 3: *In reference to GAAP departure relating to equity pick-up or self-sustaining foreign entity translation to be reported on Statement E, Line 30 and Statement F line C2(c).*
- Note 4: *Timing for items denoted as P&L are as follows: a) immediately for HFT; b) immediately for impairments on AFS, or else when realized; c) immediately for impairments and foreign translation on L&R and Other Liabilities, or else when realized.*

INSTRUCTION 4150-1
REGULATORY FINANCIAL REPORT FILING REQUIREMENTS
[LINK Sections 4151 and 4153]

The following instructions apply to Dealer Member *MFR* and audited *Form 1* filings.

Questions on filings	Document to file	
	Monthly Financial Report (MFR)	Audited Form 1
1. How often must it be filed?	Monthly, as at the end of each calendar month, unless otherwise agreed by the IIROC and the Dealer Member	Annually, as at fiscal year end, unless otherwise agreed by the IIROC and the Dealer Member
2. How must it be filed?	Electronically	Electronically and hard copy
3. When must it be filed?	Within 20 business days of the end of the month	Within 7 weeks of the audit date
4. What must it contain?	Statements A, B, C, D, and E Schedules 2, 4 (only margin account balance items 3.a and 3.d), 10, 13, 13A, 14 and 15 of <i>Form 1</i>	<i>Form 1</i>
5. Who must sign it?	CEO and CFO	Certificate of Partners or Directors (<i>Form 1</i>) - CEO/Partner - CFO - Chief accountant - At least 2 other directors or partners who are not the above Auditors' Report (<i>Form 1</i>) - Dealer Member's auditor
6. How is it signed and filed?	The CFO, using SIRFF, files it electronically with IIROC. Signed paper copy kept on file at Dealer Member's office.	The CFO, using SIRFF, files it electronically with the Dealer Member's auditor. The <i>Dealer Member's auditor</i> , using SIRFF and hand delivery, files it electronically and in paper copy form (2 copies) with the IIROC. Signed paper copy kept on file at Dealer Member's office
7. How long must paper copies be kept on file?	6 years, with the 3 most recent readily available for IIROC review.	6 years, with the 2 most recent readily available for IIROC review along with the related working papers.

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Questions on filings	Document to file	
	Monthly Financial Report (MFR)	Audited Form 1
8. What happens if filing is late?	A fee of \$100/day is assessed, based on the date of the SIRFF filing	A fee of \$250/day is assessed based on the later of the date of the SIRFF filing and the paper copy filing.

GUIDANCE NOTE 4310-1
SEGREGATION - INDICATIONS THAT INTERNAL CONTROL IS NOT ADEQUATE

This Guidance Note supplements Rule 4300, Part A, Sections 4327 through 4331, which set out minimum required internal control policies and procedures related to segregation. The following may indicate weak or inadequate internal controls for segregated securities.

1. Insufficient attention to preventing violations

A Dealer Member pays insufficient attention to preventing violations of legal and regulatory requirements for *segregated securities*, including preventing the hypothecation of *segregated securities*.

[Rule 2600, Statement 4, Indications that Internal Control is not Adequate, 1st bullet point]

2. Ill-informed staff

Dealer Member's staff persons responsible for segregation procedures are ill-informed of their duties or insufficiently trained.

[Rule 2600, Statement 4, Indications that Internal Control is not Adequate, 2nd bullet point]

3. No testing of report reliability

A Dealer Member takes no steps to establish the reliability of *segregation reports* produced by its service bureau.

[Rule 2600, Statement 4, Indications that Internal Control is not Adequate, 3rd bullet point]

4. Persistent segregation deficiencies

A Dealer Member's management does not give proper attention to segregation deficiencies that persist for an extended period of time.

[Rule 2600, Statement 4, Indications that Internal Control is not Adequate, 4th bullet point]

5. Custodians are not *acceptable securities locations*

A Dealer Member holds securities at locations that do not meet the criteria of an *acceptable securities location* either in general or because there is no written custodial agreement with the custodians that would otherwise meet the criteria of an acceptable securities location.

[Rule 2600, Statement 4, Indications that Internal Control is not Adequate, 5th bullet point]

**GUIDANCE NOTE 4340-1
SECURITIES HELD IN CUSTODY –
SECURITIES HELD IN A FOREIGN JURISDICTION**

This Guidance Note includes the following forms:

- (1) Foreign Custodian Questionnaire and Certificate as Appendix 1;
- (2) Client Consent and Waiver as Appendix 2.

This Guidance Note provides guidance on:

- (1) the Dealer Member's approval of foreign institutions or securities dealers as acceptable securities locations under section 4348;
- (2) the format of the client waiver that may be obtained under section 4351; and
- (3) the Dealer Member's year-end audit requirements for securities held with foreign institutions or securities dealers as acceptable securities locations or for securities held in securities locations where client waivers have been obtained under section 4351.

Approval of foreign institutions or securities dealers as acceptable securities locations [\[LINK: Rule 4300, Part B, Sections 4343 through 4351\]](#)

A Dealer Member must hold securities that are not under its control or physical possession at prescribed *acceptable external securities locations*. A foreign institution or securities dealer may be an *acceptable external securities location* if it meets the applicable criteria and is approved by the Corporation as an acceptable securities location. To obtain the Corporation's approval of a foreign institution or securities dealer as an acceptable securities location, a Dealer Member must: perform due diligence; approve the foreign institution or securities dealer as an *acceptable external securities location*; and complete a certificate in the form prescribed in Appendix 1 evidencing its due diligence and approval.

Format of the client waiver [\[LINK: Rule 4300, Part B, Section 4351\]](#)

In some foreign jurisdictions, it may not be possible for a Dealer Member to hold securities in an *acceptable external securities location*. In these cases, the Dealer Member must obtain a waiver from the client under section 4351.

If a Dealer Member holds securities in a foreign jurisdiction that does not meet the criteria of an *acceptable external securities location* specified in the *Corporation's requirements*, and the Dealer Member has not obtained a client waiver, then these securities are considered to be held at a non-acceptable securities location. *[IDA Member Regulation Notice MR0033]*

Appendix 2 is a client consent and waiver form that may be used if a client agrees to waive the requirement for a Dealer Member to hold securities at an *acceptable external securities location*. *[IDA Member Regulation Notice MR0033, Q.4]*

Year-end audit requirements

Annual evidence of Dealer Member's approval of location

See requirements for "Annual approval of foreign institutions or securities dealers as acceptable securities locations in section 4350.

Positive confirmation of security positions

During the course of an annual audit, a *Dealer Member's auditor* must obtain 100% positive confirmation of all the Dealer Member's *security* positions as at year-end [LINK Rule 4100, Part D, Clause 4182(1)(ii)]. This includes positions held at:

- (a) foreign institutions or securities dealers as acceptable securities locations approved by the Dealer Member; and
- (b) securities locations where clients have provided a waiver for their securities under section 4351.

A Dealer Member must advise its clients of any securities held under a client waiver that are unconfirmed.

Form 1 filings

For year-end *Form 1* filings, a Dealer Member must provide as supplementary disclosure to the Corporation:

- (a) a list of approved foreign institutions or securities dealers as acceptable securities locations where its securities are held;
- (b) the market value of securities held at those locations;
- (c) a list of those locations where the Dealer Member's auditor has not obtained a positive confirmation at the time of filing; and
- (d) the amount of capital provided for the positions in (c).

[IDA Member Regulation Notice MR0033, Q.5]

FOREIGN CUSTODIAN QUESTIONNAIRE AND CERTIFICATE

(Dealer Member Name) ("Dealer Member")

On behalf of the Board of Directors or duly constituted committee thereof, we certify that the following information is true and correct and after considering the criteria in this certificate have approved _____ ("custodian") located in _____ (country) as custodian of the Dealer Member securities holdings.

Please answer the following questionnaire:**ANSWERS
(YES/NO)**

1. The holding of Dealer Member assets in the country is consistent with the best interests of the Dealer Member's shareholders and clients after giving due regard to the following considerations:

- whether applicable law would restrict access by the Dealer Member's external auditors to books and records kept by a custodian in that country;
- whether applicable foreign law would restrict the Dealer Member's ability to recover assets in the event of the failure of the custodian in that country;
- whether applicable foreign law would restrict the Dealer Member's ability to recover assets that are lost while under the control of the custodian in that country;
- the likelihood of expropriation, nationalization, freezes or confiscation of Dealer Member assets in that country;
- whether difficulties exist in converting Dealer Member assets to Canadian dollars are reasonably foreseeable.

2. The holding of Dealer Member assets by this custodian is consistent with the best interests of Dealer Member shareholders and clients after giving due regard to the following considerations:

- the financial strength of the custodian, its general reputation and standing in the country, its ability to efficiently provide the custodial services required and the relative costs for those services;
- whether the custodian would provide a level of safeguards for maintaining Dealer Member assets not materially different from that provided by a Dealer Member's Canadian

custodians in maintaining Dealer Member securities in Canada;

- whether the custodian has branch offices in Canada to facilitate the assertion of jurisdiction over and enforcement of judgments against the custodian.

3. The Dealer Member has executed a written custodial agreement with the custodian and is in compliance with the provisions of section 4443.

4. The Dealer Member has established a system of monitoring the foreign custody arrangements to ensure that securities held at this custodian are limited to an amount reasonably necessary to effect the Dealer Member's foreign securities transactions.

5. The Board of Directors or committee thereof, at least annually will review and approve the continuance of this custodial arrangement to ensure that it is consistent with the best interests of the Dealer Member and its shareholders and clients.

6. If at any time it is determined that the continuance of the arrangement with the custodian is not consistent with the best interests of the Dealer Member and its shareholders and clients, or if the custodian is no longer approved by the IIROC, the Dealer Member undertakes to withdraw assets held for it from the custodianship of that particular custodian as soon as reasonably practical, and in any event no longer than 180 days of the date of determination.

Chief Executive Officer

Chief Financial Officer

CONSENT AND WAIVER

Account name _____

Account number _____

[Dealer Member name]

Consent and Waiver

The undersigned hereby expressly authorize(s) you to deposit the following securities _____ **[insert type or category of securities]** (collectively, the “Foreign Securities”) held for accounts of the undersigned by you with _____ **[insert name of foreign custodian]** (the “Foreign Custodian”) in _____ **[insert address of Foreign Custodian]**.

The undersigned acknowledges that conditions exist under governing laws of in _____ **[country]** that restrict the movement of securities in _____ **[country]** out of that country and that prevent compliance by the Foreign Custodian with criteria for custodial and client securities segregation arrangements required by Canadian regulatory standards. Therefore, the safety and recovery of securities held for the undersigned by you with the Foreign Custodian cannot be assured.

The undersigned hereby accept(s) all risks arising because the Foreign Custodian is the depository of the Foreign Securities and hereby waives any claim it may have against you and relieves you of any liability with respect to any loss of the Foreign Securities held for accounts of the undersigned with you by the Foreign Custodian. For greater certainty the undersigned acknowledges that no capital or margin is required to be maintained by you in respect of the Foreign Securities held by the Foreign Custodian. The undersigned further acknowledges that no claim may be made by the undersigned under the Canadian Investor Protection Fund in the event of a loss in accounts of the undersigned from the inability to recover or deliver the Foreign Securities.

The Consent and Waiver remain valid until the Foreign Securities are returned by the Foreign Custodian to you to be held in my accounts with you in accordance with Canadian securities segregation requirements.

Dated at _____ , _____ **[date]**

Signature(s):

(Dealer Member signature)

**GUIDANCE NOTE 4340-2
SECURITIES HELD IN CUSTODY –
CUSTODIAL AGREEMENT REQUIREMENT AND MARGIN REQUIREMENTS**

This Guidance Note provides direction on a Dealer Member's custody obligations and interprets certain margin requirements in Rule 4300, Part B, Sections 4365 and 4366, that apply when a Dealer Member:

- (1) does not have a written custodial agreement with an *external securities location*; and/or
- (2) does not reconcile its mutual fund or evidence of deposit securities positions with the statements issued by its mutual fund or financial institution custodian.

Included as appendices to this Guidance Note are the following:

- Appendix 1 - the standard custodial agreement
- Appendix 2 - the standard custodial agreement for non-certificated debt
- Appendix 3 - the Bare Trustee Custodial Agreement for mutual fund securities
- Appendix 4 - a Custodial Agreement Decision Tree for determining capital charges
- Appendix 5 - a summary of the custody related margin requirements

WRITTEN CUSTODIAL AGREEMENT REQUIREMENT

AGREEMENTS BETWEEN A DEALER MEMBER AND AN EXTERNAL CUSTODIAN

A Dealer Member must execute a custodial agreement for securities held at external securities locations. This Guidance Note discusses two types of written custodial agreements. First, it covers those agreements between a Dealer Member and an external securities location that otherwise qualifies as an acceptable external securities location, as required by section 4352. Second, it covers those agreements with certain third party custodians in which the Corporation acts as a bare trustee for Dealer Members, as covered in section 4353.

Background

A Dealer Member has a custody obligation for all securities held in nominee name. A Dealer Member may also have a safekeeping obligation for securities held in client name, depending upon whether or not the client named securities are under the Dealer Member's control. If those nominee name and client name securities are under the Dealer Member's control, the Dealer Member has a custody obligation and a safekeeping obligation, respectively, and must hold them at an acceptable internal securities location or at an *acceptable external securities location*. [LINK: Rule 4300, Part B, Section 4341] For an external securities location to qualify as an *acceptable external securities location*, the location must meet the requirements in section 4347 and Form 1, which includes the requirement that the Dealer Member have a written custodial agreement with the external securities location.

If a Dealer Member does not have a written custodial agreement for an external securities location, the location is considered to be a non-acceptable securities location. Security positions held at such locations are subject to additional margin requirements. [\[LINK: Rule 4300, Part B, Section 4365 and Form 1, Statement B, Line 18\]](#)

Custody obligation and arrangements requiring custodial agreement

The Dealer Member has a custody obligation for all securities held in nominee name, whether held in book-based or physical form. This includes mutual fund positions and financial institution-issued evidences of deposit. Table 1 details situations when a custodial agreement, a safekeeping agreement, and when no agreement is required.

Table 1: Required use of custodial agreements and safekeeping agreements.

	Nominee name	Client name
Book-based certificate	Security “held” at location external to the Dealer Member in nominee name. External location - Dealer Member must verify that location otherwise qualifies as an acceptable external securities location and execute a <i>custodial agreement</i>	Security “held” at location external to the dealer in client name and outside of Dealer Member control. External location - Position is not reported on Dealer Member books and <i>no agreement is required</i>
Physical certificate	Security may be held at location either external to or within the Dealer Member in nominee name. External location - Dealer Member must verify that location otherwise qualifies as an acceptable external securities location and execute a <i>custodial agreement</i> Within the Dealer Member - Dealer Member must verify compliance with sections 4343, 4344, and 4345.	Security may be held at location either external to (either subject to dealer control or not) or within the Dealer Member in client name. External location and subject to Dealer Member control - Dealer Member must verify that location otherwise qualifies as an acceptable external securities location and execute a <i>safekeeping agreement</i> External location and not subject to Dealer Member control - Position is not reported on Dealer Member books and <i>no agreement is required</i> Within the Dealer Member - Dealer Member must verify compliance with sections 4343, 4344, and 4345.

Margin implications of not having a custodial agreement in place

If a Dealer Member does not have a written custodial agreement with a custodian, and that entity would otherwise qualify as an acceptable securities location, margin totaling up to 10% of the market value of the securities must be deducted on Statement C to account for “agreement risk”.

Without a written custodial agreement in place, “set-off risk” is also a concern. A financial institution that is both a custodian and a securities issuer could set-off the amount owed by a Dealer Member to the custodian against the redemption value of a security redeemed by the Dealer Member on behalf of a client. For example, an evidence of deposit is generally held at a financial institution issuer in nominee name by a Dealer Member for its client. When the Dealer Member redeems the investment on behalf of its client, the financial institution could potentially set-off its redemption obligation to pay by any amounts owed by the Dealer Member to the financial institution. Table 2 summarizes the margin implications of having and not having a custodial agreement with an external custody location.

Table 2: Summary of margin requirements regarding custodial agreements and an external custody location.

External custody location situation	Margin requirements
1. Location is an entity meeting the “acceptable securities locations” definition in Form 1 AND <i>Dealer Member has executed an acceptable custodial agreement with the institution.</i>	No margin required unless there are unresolved differences pursuant to section 4366
2. Location is a non-acceptable securities location AND <i>Dealer Member has obtained client waivers for positions held. Dealer Member has executed an acceptable custodial agreement with the institution.</i>	No margin required pursuant to section 4362
3. Location is an entity meeting the “acceptable securities locations” definition in Form 1 AND <i>Dealer Member has not executed an acceptable custodial agreement with the institution.</i> OR 4. Location is a non-acceptable securities location AND <i>Dealer Member has obtained client waivers for positions held. Dealer Member has not executed an acceptable custodial agreement with the institution.</i>	<i>No set-off risk present:</i> Margin requirement in determining early warning excess and early warning reserve equal to 10% of the market value of securities held in custody pursuant to subsection 4365(2). <i>Set-off risk present:</i> Two margin requirements, one in determining early warning excess and early warning reserve, and the other in determining RAC, which on a combined basis may be up to a maximum of 100% of the market value of securities held in custody pursuant to subsection 4365(3).

Examples of calculations

The following examples illustrate how the calculations would work for specific situations.

Example #1

A Dealer Member enters into a custodial arrangement with ABC Custody Services, but does not sign a custodial agreement to document the arrangement. The market value of the securities held in custody is \$10 million. The Dealer Member has no other business with ABC Custody Services. ABC Custody Services would otherwise qualify as an acceptable securities location except for the fact that a custodial agreement was not signed.

Margin requirements

- Setoff risk requirement - Nil

The Dealer Member has no other business with ABC Custody Services so it has no other obligations.

- Agreement risk requirement - \$1 million

The requirement is 10% of the market value of the securities at ABC Custody Services which is \$1 million. This amount is deducted on Line 2(c) of Statement C as part of the early warning excess and early warning reserve calculation.

Example #2

A Dealer Member enters into a custodial arrangement with DEF Custody Services, but does not sign a custodial agreement to document the arrangement. The value of the securities held in custody is \$10 million. The Dealer Member also enters into a significant number of securities borrowing and lending transactions with DEF Custody Services on an ongoing basis, and as at the date of calculation has received a call from DEF Custody Services to provide additional collateral in the amount of \$5 million. The Dealer Member has no other business with DEF Custody Services apart from the custodial arrangement and the securities borrowing and lending transactions activity. DEF Custody Services would otherwise qualify as an acceptable securities location except for the fact that a custodial agreement was not signed.

Margin requirements.

- Setoff risk - \$5 million.

The amount of the setoff risk requirement is the lesser of the setoff risk exposure (\$5 million) and the value of the securities held in custody (\$10 million). This amount is deducted on Line 18 of Statement B as part of the RAC calculation.

- Agreement risk requirement - \$1 million

The requirement is 10% of the market value of the securities at DEF Custody Services, which is \$1.0 million. This amount is deducted on Line 2(c) of Statement C as part of the early warning excess and early warning reserve calculation.

Example #3

A Dealer Member enters into a custodial arrangement with GHI Custody Services, but does not sign a custodial agreement to document the arrangement. The value of the securities held in custody is \$10 million. The Dealer Member also enters into a significant number of securities borrowing and lending transactions with GHI Custody Services on an ongoing basis, and as at the date of calculation has received a call from GHI Custody Services to provide additional collateral in the amount of \$9.5 million. The Dealer Member has no other business with GHI Custody Services apart from the custodial arrangement and the securities borrowing and lending transactions activity. GHI Custody Services would otherwise qualify as an acceptable securities location except for the fact that a custodial agreement was not signed.

Margin requirements

- Setoff risk - \$9.5 million.

The amount of the setoff risk requirement is the lesser of the setoff risk exposure (\$9.5 million) and the value of the securities held in custody (\$10 million). This amount is deducted on Line 18 of Statement B as part of the RAC calculation.

- Agreement risk requirement - \$0.5 million

The requirement is normally 10% of the market value of the securities at GHI Custody Services which is \$1.0 million. However because \$9.5 million is already being provided above for setoff risk and the total losses are limited to the value of the securities held in custody (\$10 million), the requirement in this case is reduced to \$0.5 million. This amount is deducted on Line 2(c) of Statement C as part of the early warning excess and early warning reserve calculation.

Summary of examples

Example #1 illustrates that when a Dealer Member has no other business with an outside custodian that otherwise qualifies as an *acceptable securities location*, the margin requirement when the Dealer Member does not execute a written custodial agreement (in a form acceptable to the Corporation) is limited to a 10% charge as part of the early warning excess and early warning reserve calculation.

Example #2 illustrates that when a Dealer Member has other business with an outside custodian that otherwise qualifies as an *acceptable securities location*, the margin requirement when the Dealer Member does not execute a written custodial agreement (in a form acceptable to IIROC) has two parts:

- A charge for any setoff risk exposure to the custodian as part of the *RAC* calculation; and
- A 10% charge as part of the early warning excess and early warning reserve calculation.

Example #3 illustrates that in total, the charges provided for in the *RAC* and early warning excess and early warning reserve calculations do not exceed 100% of the market value of the securities held in custody.

Sub-custodial arrangements

If a Dealer Member has a master global custodial agreement with an *acceptable institution* and the Dealer Member's master global custodial agreement with the *acceptable institution* provides that securities are also held in sub-custodial locations, the custodial agreement must contain a legally enforceable indemnity of the *acceptable institution* in favour of the Dealer Member for all losses, claims, damages, costs and liabilities for securities and other property held for the Dealer Member and its clients at all sub-custodial locations disclosed to the Dealer Member. If a Dealer Member is aware of its global custodian using sub-custodial locations but has not obtained this indemnity, the Dealer Member will be subject to capital charges.

To ensure that global custodial arrangements are in compliance with the requirements noted above, a Dealer Member should consult with the Corporation before finalizing any agreement.

AGREEMENTS BETWEEN THE CORPORATION, AS BARE TRUSTEE, AND AN EXTERNAL CUSTODIAN

Background -

The Corporation enters into custodial agreements, as bare trustee for the Dealer Members, with certain third party custodians for mutual funds, book-based Canada Savings Bonds and evidences of deposit. The bare trustee custodial agreement with a third party custodian fulfills the Dealer Member's obligation to enter into a written custodial agreement with that custodian. [\[LINK Rule 4300, Part B, Section 4353\]](#) Dealer Members thus avoid a multiplicity of custodial agreements with those third party custodians. *[IDA Bulletin #3618, IDA Compliance Interpretation Bulletin C-81, IDA Bulletin #2588, IDA Member Regulation Notice MR0080]*

The IDA and CIPF entered an agreement dated May 9, 2005 in which all existing custody agreements executed in the name of CIPF as bare trustee were assigned to the IDA for administration on a going forward basis. With the formation of IIROC on June 1, 2008, all existing custody agreements were assigned to IIROC. All references in this Guidance Note to current bare trustee custodial agreements describe IIROC as a signatory. IIROC now enters into bare trustee custodial agreements on behalf of Dealer Members. *[IDA Member Regulation Notice MR0475]*

A bare trustee custodial agreement must contain the minimum terms prescribed in Rule 4352. [\[LINK: Rule 4300, Part B, Section 4352\]](#)

Agreements with mutual funds and financial institutions

A Dealer Member satisfies the requirement to have a written custodial agreement with a mutual fund or a financial institution issuer of evidences of deposit if:

- (a) the Dealer Member signs a prescribed custodial agreement directly with the mutual fund or financial institution; or
- (b) The Corporation, acting as bare trustee for Dealer Members, has a written custodial agreement with that mutual fund or financial institution.

Custodial agreement between a Dealer Member and a mutual fund or financial institution custodian

The custodial agreement in Appendix 1 may be used by a Dealer Member and a mutual fund custodian for mutual fund securities, and the custodial agreement in Appendix 2 may be used by a Dealer Member and a financial institution for non-certificated evidences of deposit.

Bare trustee custodial agreement with a mutual fund or financial institution

A Dealer Member may arrange for a bare trustee custodial agreement with a mutual fund or a financial institution in two ways. First, a Dealer Member may ask the Corporation to request that a mutual fund or financial institution sign the prescribed custodial agreement and return it to the Corporation for signature.

- (a) The Dealer Member must give the Corporation the name, address and name of the contact person for the mutual fund or financial institution.
- (b) The Corporation will send the custodial agreement to the mutual fund or financial institution for signature.

Second, a Dealer Member may provide a blank copy of the prescribed custodial agreement directly to the mutual fund or financial institution and ensure that the signed agreement is forwarded to the Corporation for signature.

MARGIN IMPLICATIONS – RECONCILIATION OF SECURITIES POSITION

A basic principle of securities regulation is to safeguard securities and client assets. A Dealer Member that holds all securities that are not under its control or physical possession in an *acceptable external securities location* is subject to margin requirements resulting from unreconciled differences, if any.

General

- (1) A Dealer Member must reconcile its mutual fund and evidence of deposit securities positions at least monthly with records, account statements, or electronic files provided by the mutual fund or financial institution custodian. [\[LINK: Rule 4300, Part B, Section 4360\]](#)

ATTACHMENT B

- (2) A Dealer Member that has not reconciled its balances and securities positions with the records provided by the mutual fund or financial institution custodian must provide margin for unresolved differences [\[LINK: Rule 4300, Part B, Section 4366 and Form 1, Statement B, Line 20\]](#)
- (3) If the custodian issues statements on a quarterly, semi-annual, or annual basis, a Dealer Member is unable to comply with the requirement for monthly reconciliation in the months it does not receive statements. The Dealer Member is subject to margin charges for those months in which it is unable to reconcile its securities positions.

Rules for reconciliation of mutual funds and “evidences of deposit”

For margin purposes, mutual fund securities issued by mutual funds and evidences of deposit issued by financial institutions that are not negotiable and/or transferable are classified into the following:

Type I

If the issuing mutual fund or financial institution provides monthly files or statements, margin is only required on any unresolved differences. [\[LINK Form 1, Statement B, Line 20\]](#)

Type II

If:

- (a) a Dealer Member does not reconcile a mutual fund or evidence of deposit security position with monthly files or statements provided by the issuing mutual fund or financial institution monthly;
- (b) there has been no loan value extended to positions held in client accounts; and
- (c) there has been no activity in the security positions held with the issuing mutual fund or financial institution in the last six months, except for redemptions and transfers,

then the margin required on these security positions is 10% of the market value of each individual position, calculated as at the reporting date. [\[LINK Form 1, Statement B, Line 20\]](#)

In all other cases, the margin required on these security positions is 100% of the market value of each individual position calculated as at the reporting date.

CUSTODIAL AGREEMENT

AGREEMENT made the day of , 20 .

B E T W E E N:

Name: _____

Address: _____

("Member")

OF THE FIRST PART

- and -

Name: _____

Address: _____

("Custodian")

OF THE SECOND PART

WHEREAS:

- A. the Member is a member of a self-regulatory organization (the "SRO") which is a participating institution in the Canadian Investor Protection Fund;
- B. the Custodian provides custodial and depository services and meets the criteria as an acceptable securities location set out in the by-laws, rules and regulations of the SRO;
- C. the Custodian provides services, including custodial and/or depository services, to the Member in connection with the segregation obligations of members of the SRO;
- D. the by-laws, rules and regulations of the SRO require that the terms upon which any securities are deposited with the Custodian for the Member or its customers include certain written provisions to the effect of subparagraphs 1(a), (b) and (c) hereof;
- E. the parties hereto desire to comply with the by-laws, rules and regulations of the SRO;

IN CONSIDERATION of these premises and other good and valuable consideration received and acknowledged by each of the parties hereto, the parties agree as follows:

1. Terms of Segregation

The Custodian shall ensure, in respect of any securities deposited with and held by it for the Member or customers of the Member in accordance with the by-laws, rules and regulations of the SRO that, subject to securing the payment of the reasonable and agreed administration fees and charges in respect of the custodial and depository services provided:

- (a) no use or disposition of such securities shall be made without the prior written consent of the Member;
- (b) certificates representing such securities shall be delivered to the Member promptly on demand or, when certificates are not available and the securities are represented by book entry by the Custodian, the securities shall be able to be transferred either from the Custodian or to the account of any other person maintaining an account at the Custodian promptly on demand; and
- (c) securities shall be held in segregation for the Member or its customers free and clear of any charge, lien, claim or encumbrance of any kind in favour of the Custodian including, without limitation, such of the same as may otherwise arise in respect of margin account dealings.

2. Records

The Custodian shall maintain records in readily accessible form sufficient to identify the securities and other property held by it for the Member and its customers pursuant to this agreement separate and distinct from any other securities or property held by the Custodian. Accounts for securities and property held hereunder shall be in the name of the Member. The Custodian shall permit access to such records or provide confirmation of their contents to the auditors of the Member within seven business days of written request. The Member shall be entitled to receive a report from the Custodian not less frequently than monthly disclosing the state of any account of the Member held by the Custodian including the amount, value and identification of securities by issue held for such account, any deficiencies, and accrued and unpaid fees or charges.

3. Indemnity

The Custodian shall indemnify and save harmless the Member against and from any and all losses of the Member as a result of the failure of the Custodian to return to the Member any securities or property held by it in accordance with this agreement, provided that the liability of the Custodian under this paragraph shall be limited to the market value of the securities and property as at the time which it was required to deliver to the Member the securities and property.

4. Terms

This agreement shall remain in full force and effect as long as the Custodian holds any securities on behalf of the Member or its customers.

5. Binding Effect

This agreement shall extend to and enure to the benefit of and be binding upon the successors and assigns of the parties hereto but shall not be assigned by the Custodian without the prior written consent of the Member.

6. 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 convention soit rédigée en anglais.

The parties have executed this agreement under the hands of their authorized officers as of the date set out above.

[CUSTODIAN]

Per: _____

Position: _____

[MEMBER]

Per: _____

Position: _____

June 21, 1994

Custodial Agreement (NCI)

Re: Non-Certificated Debt Instruments

AGREEMENT made this _____ day of _____, 199 ____.

BETWEEN:

Name: _____

Address: _____

("Member")

OF THE FIRST PART

- and -

Name: _____

Address: _____

("Issuer")

OF THE SECOND PART

[Note to Members: This sample Custodial Agreement contains the minimum terms that are required by your Canadian SRO (as defined) for external segregation location arrangements (or non-certificated debt instruments such as GICs). Additional terms may be necessary or desirable to protect your interests and you should consult your own advisors in that regard. The SROs and their employees and representatives are not responsible to the Members or their customers or any other person who relies on the provisions of this draft Agreement.]

WHEREAS:

- A. the Member is a member of a self-regulatory organization (the "SRO") which is a participating institution in the Canadian Investor Protection Fund;
- B. the Issuer sells and redeems securities of its own issue to the Member and the customers

ATTACHMENT B

of the Member from time to time, which securities may be available in non-certificated form and represented by book entry by the Issuer ("NCF Securities");

- C. the Issuer meets the criteria as an acceptable securities location set out in the by-laws, rules and regulations of the SRO ("Regulations");
- D. the Regulations require that the terms upon which any NCF Securities are issued and held by the Issuer for the Member or its customers include certain written provisions to the effect of subparagraphs I (a), (b) and (c) hereof in connection with the segregation obligations of members of the SRO; and
- E. the parties hereto desire to comply with the Regulations.

IN CONSIDERATION of these premises and other good and valuable consideration received and acknowledged by each of the parties hereto, the parties agree as follows:

1. Terms of Segregation

The Issuer shall ensure, in respect of any NCF Securities registered in the name of the Member and held by it for the Member in accordance with the Regulations that:

- (a) no use or disposition of NCF Securities shall be made without the prior written consent of the Member (which consent may be given by electronic communication which is capable of being retrieved and confirmed);
- (b) certificates representing NCF Securities shall be delivered to the Member promptly on demand or, when certificates are not available and the securities are represented by book entry only by the Issuer, the NCF Securities shall be able promptly on demand to be either (i) transferred from the Issuer or to the account of any other person maintaining an account at the Issuer or (ii) redeemed by the Issuer; and
- (c) NCF Securities shall be held in segregation for the Member or its customers free and clear of any charge, lien, claim or encumbrance of any kind in favour of the Issuer including, without limitation, such of the same as may otherwise arise in respect of margin account dealings.

2. Records

The Issuer shall maintain records in readily accessible form sufficient to identify the NCF Securities and other property held by it for the Member and its customers pursuant to this agreement separate and distinct from any other securities or property of or held by the Issuer. Accounts for securities and property held hereunder shall be in the name of the Member. The Issuer shall permit access to such records or provide confirmation of their contents to the auditors of the Member within seven business days of written request. The Member shall be entitled to receive a report from the Issuer not less frequently than monthly disclosing the state of any account of the Member held by the Issuer including the amount, value and identification of NCF Securities held for such account, any deficiencies, and accrued and unpaid fees or charges.

3. Indemnity

The Issuer shall indemnify and save harmless the Member against and from any and all losses of the Member as a result of the failure of the Issuer to return or credit to the Member or its customers any NCF Securities or property held by it in accordance with this agreement, provided that the liability of the Issuer under this paragraph shall be limited to the market value of the NCF Securities and property as at the time which it was required to deliver to the Member the NCF Securities and property.

4. Terms

This agreement shall remain in full force and effect as long as the Issuer holds any NCF Securities on behalf of the Member or its customers.

5. Binding Effect

This agreement shall extend to and enure to the benefit of and be binding upon the successors and assigns of the parties hereto but shall not be assigned by the Issuer without the prior written consent of the Member.

6. 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 convention soit rédigée en anglais.

The parties have executed this agreement under the hands of their authorized officers as of the date set out above.

[ISSUER]

Per: _____

Position: _____

[MEMBER]

Per: _____

Position: _____

January 30, 1996

Mutual Fund Bare Trustee

AGREEMENT made the _____ day of _____, 20__.

B E T W E E N:

Name: _____

Address: _____

("Fund/Manager")

OF THE FIRST PART

-and-

Investment Industry Regulatory Organization of Canada (IIROC)/Organisme
canadien de réglementation du commerce des valeurs mobilières—OCRCVM

Suite 1600, 121 King Street West,
Toronto, Ontario, M5H 3T9, for and on behalf of its Dealer Members,
as trustee,

("IIROC")

OF THE SECOND PART

INTRODUCTION:

1. IIROC is a self-regulatory organization which regulates its Dealer Members in accordance with its rules, forms and other directives and notices (the "Rules").
2. The Fund/Manager (i) sells and redeems investment products (as defined below) of its own issue to, and/or (ii) provides management, administrative or other services to issuers or distributors of products who deal with, certain Dealer Members and the customers of such Dealer Members from time to time.

ATTACHMENT B

3. This Agreement is intended to apply to all investment products ("products"), which shall include (without limitation) securities of every type, mutual funds and investment funds, annuities and other types of insurance contracts, deposits and deposit liabilities of every type, precious metals and other commodities and other similar investments in whatever form (whether tangible or intangible and whether or not evidenced by any certificate or instrument or book entry).

4. In connection with the activities of the Fund/Manager described in paragraph 2, the Fund/Manager is to be an acceptable segregation location for Dealer Members for the purposes of the Rules in respect of the segregation obligations of the Dealer Members with respect to all products (whether or not constituting securities).

5. The Rules require that the terms upon which any products are held by or deposited with the Fund/Manager for Dealer Members include written provisions to the effect of paragraphs 1(a), (b), (c) and (d) below.

6. As a matter of convenience and to reduce the need for the Fund/Manager to enter into individual written agreements with each Dealer Member with whom it deals, IIROC has agreed to enter into this Agreement as a bare trustee on behalf of such Dealer Members.

IN CONSIDERATION of these premises and other good and valuable consideration received by each of the parties from each of the others, the parties agree as follows:

1. **Terms of Segregation.** The Fund/Manager shall ensure, in respect of any products registered in the name of a Dealer Member and/or held by or deposited with it for the Dealer Member in accordance with the Rules, that, subject to paragraph 1(e),

- (a) no use or disposition of such products shall be made (including any action that could result in the creation of an encumbrance) without the prior written consent of the Dealer Member (which consent may be given by electronic communication which is capable of being retrieved and confirmed);
- (b) certificates or instruments representing such products shall be delivered to the Dealer Member promptly on demand or, when certificates or instruments are not available and the products are represented by book entry by the Fund/Manager, the products shall be able to be transferred either from the Fund/Manager or to the account of any other person maintaining an account at the Fund/Manager promptly on demand;
- (c) the products of the Dealer Member or customers of a Dealer Member shall be held in segregation for the Dealer Member and shall be free and clear of any mortgage, charge, lien, trust, right of retention, claim or other encumbrance of any kind in favour of the Fund/Manager in any capacity, any such encumbrance that may exist or be created despite this prohibition being irrevocably waived; and
- (d) the Fund/Manager shall not, in any capacity, assert any right of set off, consolidation of accounts, combination, compensation, retainer or netting, or assert any other right or counterclaim in any manner that could produce a like or analogous effect, any such right or manner of counterclaim that may exist or arise despite this prohibition being irrevocably waived; provided that

ATTACHMENT B

(e) the prohibition of the Fund/Manager in paragraph 1(a) and the requirements of the Fund /Manager in paragraphs 1 (b), (c) and (d) are each subject to the terms, conditions and provisions of:

- (i) the products,
- (ii) any contract between the Fund/Manager and the holder of the products in respect of the sale, issuance, transfer or redemption of the products, and
- (iii) any applicable law or regulatory policy,

and any act or refusal to act by the Fund/Manager in accordance with or permitted by such terms, conditions or provisions shall not be considered to be in breach of this Agreement.

2. Notwithstanding any other agreement or course of dealing between the Dealer Member and the Fund/Manager either before or after the date of this Agreement, all products of the Dealer Member or customers of the Dealer Member that may be held by, recorded with or otherwise left or placed in the possession or under the control of the Fund/Manager from time to time (regardless of the form of holding or recording or any other circumstances, and whether in tangible or intangible form) shall be subject to this Agreement, except only to the extent that the application of this Agreement to a particular product or group of products is expressly excluded by the prior written consent of the Dealer Member (which consent to exclusion may be given by electronic communication which is capable of being retrieved and confirmed).

3. **Trust.** IIROC declares that it holds the benefit of the covenants of the Fund/Manager herein in trust for the Dealer Members and the Fund/Manager acknowledges that each Dealer Member for whom the Fund/Manager is an acceptable segregation location may enforce such covenants directly against the Fund/Manager as if entered into by such Dealer Member itself in connection with the services provided by the Fund/Manager to such Dealer Member. IIROC shall be under no obligation or responsibility of any kind or character to any Dealer Member or customer of a Dealer Member or any person claiming through either of them in respect of this Agreement and, in particular, shall have no obligation, responsibility or duty to see that any covenant herein is carried out and fulfilled or to take any action for the enforcement of this Agreement

4. **Indemnity.** The Fund/Manager shall indemnify and save harmless the Dealer Member against and from any and all losses of the Dealer Member as a result of the failure of the Fund/Manager to return to the Dealer Member any securities or property held by it in accordance with this Agreement, provided that the liability of the Fund/Manager under this paragraph shall be limited to the market value of the securities and property as at the time which it was required to deliver to the Dealer Member the securities and property.

5. **Term.** This Agreement shall remain in full force and effect with respect to any Dealer Member and the Fund/Manager as long as any products are held by or deposited with the Fund/Manager on behalf of such Dealer Member as an acceptable segregation location.

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6. **Binding Effect.** This Agreement shall extend to and enure to the benefit of and be binding upon the successors and assigns of the parties hereto and the Dealer Members but shall not be assigned by the Fund/Manager without the prior written consent of IIROC.

7. **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 convention soit rédigée en anglais.

8. **Governing Law.** This Agreement shall be governed by the laws of the Province of Ontario.

THE PARTIES have executed this Agreement under the hands of their authorized officers as of the date set out above

(Name of Fund/Manager)

By: _____

By: _____

Type(s) of Products Managed: (eg. Mutual Funds,
Segregated Funds, Guaranteed Investment Certificates,
Other, - with Description) _____

Investment Industry Regulatory Organization of
Canada / Organisme canadien de réglementation
du commerce des valeurs mobilières

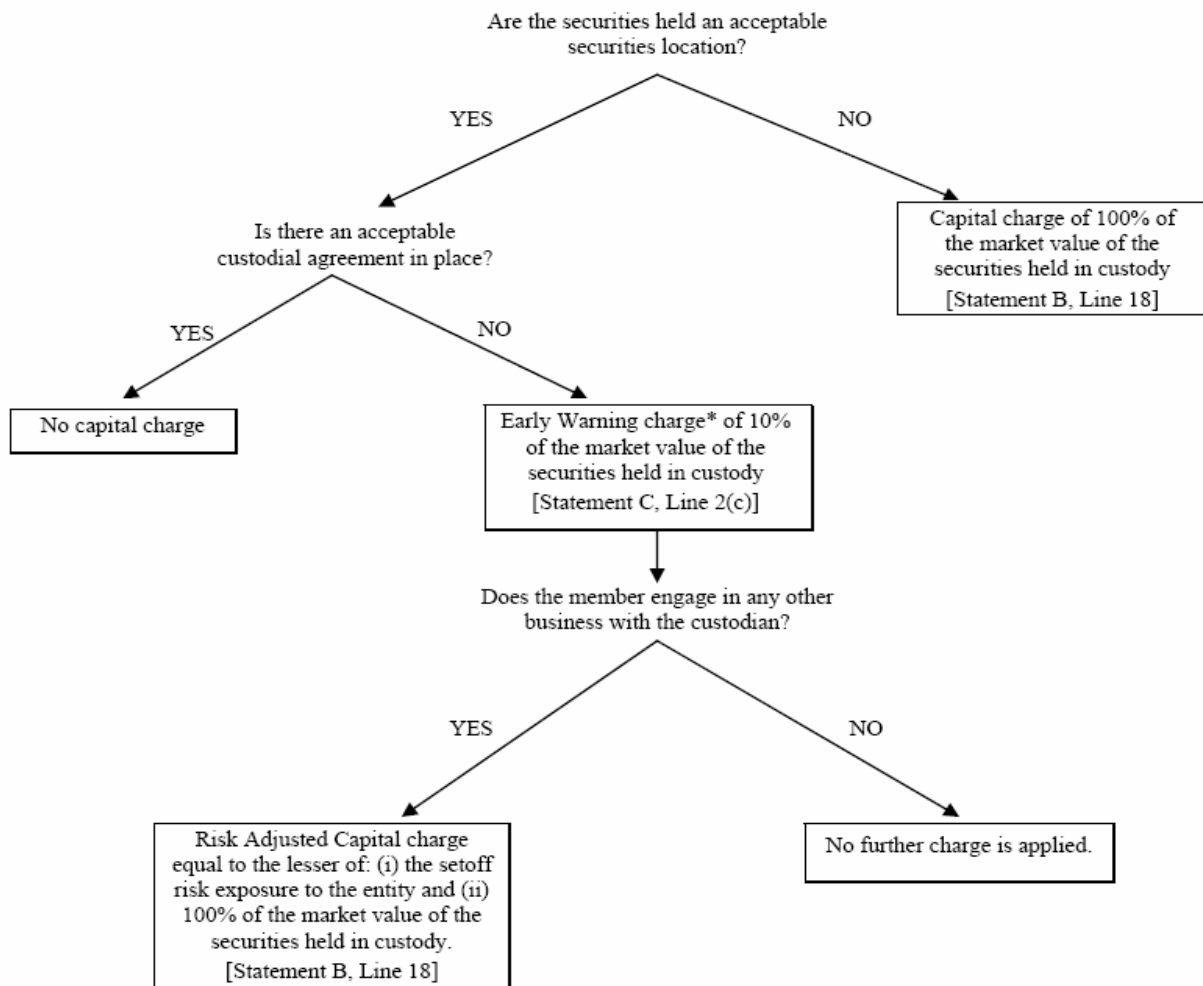
By: _____

By: _____

June 2008

Chart 1: Custodial Agreement Decision Tree

This decision tree details the considerations in determining whether, for a particular custodial arrangement, a capital charge needs to be calculated and provided for on either Line 18 of Statement B of Form 1, or Line 2(c) of Statement C of Form 1, or both lines. Members are reminded that a separate capital charge would apply where an unresolved difference is identified. In the case of unresolved differences, a capital charge would be calculated and provided on Line 20 of Statement B of Form 1 whether or not a valid custodial agreement has been entered into with the custodian.



The combined Risk Adjusted Capital and Early Warnings charges shall be no greater than 100% of market value of the securities held in custody. Where the combined charges initially calculated are greater than 100%, the Early Warning charge* shall be reduced accordingly.

[IDA Member Regulation Notice MR0529]

Margin Requirements

The chart below summarizes the margin requirements in Rule 4300, Part B, sections 4363 through 4366.

Situation	Margin Requirements
1. Internal securities locations	
(a) Dealer Member holds securities in acceptable internal storage	Margin required on any unreconciled differences based on Form 1, Statement B, Line 20, Notes and Instructions pursuant to Rule 4300, Part B, Section 4366
(b) Securities are in transit between internal storage locations:	Non-acceptable securities location – Deduct 100% of market value of securities pursuant to Rule 4300, Part B, Section 4363
(i) for which there are no adequate internal controls; OR	
(ii) for more than 5 business days	
2. External securities locations	
(a) Dealer Member holds securities in <i>acceptable external securities location</i>	Margin required on any unreconciled differences pursuant to Form 1, Statement B, Line 20, Notes and Instructions and Rule 4300, Part B, Section 4366
(b) Dealer Member holds securities at <i>external securities location</i> not specified in <i>IIROC requirements</i>	Non-acceptable securities location – Deduct 100% of market value of securities pursuant to Rule 4300, Part B, Section 4363
(c) Dealer Member holds securities in foreign institution or securities dealer as an acceptable securities location but no annual written approval of location by Dealer Member's board or appropriate committee	Non-acceptable securities location – Deduct 100% of the market value of securities held in custody with the location pursuant to Rule 4300, Part B, Section 4363
(d) Dealer Member holds securities in <i>acceptable external securities location</i> but Dealer Member has not received annual positive confirmation from custodian	Transfer position to difference account and provide margin using a margin rate appropriate for inventory positions pursuant to Rule 4300, Part B, Section 4364
(e) Securities with a transfer agent in Canada and position remains unconfirmed after 45 business days of delivery	Transfer position to difference account and provide margin using a margin rate appropriate for inventory positions pursuant to Rule 4300, Part B, Section 4364
(f) Securities with a transfer agent in the US and position remains unconfirmed after 70 business days of delivery	Transfer position to difference account and provide margin using a margin rate appropriate for inventory positions pursuant to Rule 4300, Part B, Section 4364
(g) Securities with a transfer agent outside Canada and the US, and position remains unconfirmed after 100 business days of delivery	Transfer position to difference account and provide margin using a margin rate appropriate for inventory positions pursuant to Rule 4300, Part B, Section 4364

Situation	Margin Requirements
(h) Dealer Member does not receive securities from a declared stock dividend or stock split within 45 business days of date receivable, and position remains unconfirmed after the 45 business days (i) For mutual fund positions and evidences of deposit where a Dealer Member reconciles its book and records at least monthly to the mutual fund's or financial institution's records (j) For mutual fund positions and evidences of deposit where a Dealer Member does not reconcile its books and records at least monthly to the mutual fund's or financial institution's records and there is: (i) no transactions, except for redemptions and transfers, in the securities for at least 6 months, and (ii) no loan value extended to positions held in client accounts. (k) For mutual fund positions and evidences of deposit where a Dealer Member does not reconcile its books and records at least monthly to the mutual fund's or financial institution's records and there is: (i) transactions, other than redemptions and transfers, in the securities within the last 6 months, or (ii) loan value extended to the securities held in client accounts. (l) Custodian would be <i>acceptable external securities location</i> except no written custodial agreement with Dealer Member; custodian has no right of set-off against Dealer Member (m) Custodian would be <i>acceptable external securities location</i> except no written custodial agreement with Dealer Member; Dealer Member has <i>set-off risk</i> with custodian	Transfer position to difference account and provide margin using a margin rate appropriate for inventory positions pursuant to Rule 4300, Part B, Section 4364 Margin required on any unreconciled differences pursuant to Form 1, Statement B, Line 20, Notes and Instructions and Rule 4300, Part B, Section 4366 Margin required on any unreconciled differences is 10% of the market value of the securities pursuant to Rule 4300, Part B, Section 4366 Margin required on any unreconciled differences pursuant to Form 1, Statement B, Line 20, Notes and Instructions and Rule 4300, Part B, Section 4366 In determining early warning excess and early warning reserve, deduct 10% of market value of securities held in custody pursuant to Rule 4300, Part B, Subsection 4365(2) (i) Provide margin by the lesser of: (a) 100% of <i>set-off risk</i> exposure, and (b) 100% of market value of securities held in custody; plus (ii) in determining early warning excess and early warning reserve, deduct 10% of market value of securities held in custody. The total of above requirements limited to 100% of market value of securities held in custody pursuant to Rule 4300, Part B, Subsection 4365(3)