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CIRO Bulletin

October 16, 2025
25-0277
Rules Bulletin > Request for Comments

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Rule Connection: IDPC Rules
Division: Investment Dealer

Republication of Proposed Amendments - Fully paid lending and financing arrangements

Executive Summary

Comments Due By: November 16, 2025

The Canadian Investment Regulatory Organization (**CIRO**) is publishing for comment proposed revisions to the Investment Dealer and Partially Consolidated (**IDPC**) Rules amendments relating to fully paid securities lending and financing arrangements, originally published in Bulletin **24-0067** (**Revised Proposed Amendments**).

We are particularly seeking comments on our revised proposal not to proceed with codifying the existing restriction that limits retail fully paid securities lending to non-registered accounts (**Revised Account Restriction**). Contemplated amendments to the Income Tax Act (**ITA**), which would clarify the permissibility of fully paid lending in registered accounts, calls into question the basis for maintaining this restriction under our rules. By making this revision now, we aim to ensure regulatory harmonization and minimize the need for future rule revisions.

How to Submit Comments

Comments on the Revised Proposed Amendments should be in writing and delivered by November 16, 2025 (30 days from the publication date of this Bulletin) to:

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4
e-mail: memberpolicymailbox@ciro.ca

Copies should also be delivered to the Canadian Securities Administrators (**CSA**):

Trading and Markets
Ontario Securities Commission
20 Queen Street West Toronto
22nd Floor
Ontario M5H 3S8
e-mail: **TradingandMarkets@osc.gov.on.ca**

and

Capital Markets Regulation
B.C. Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2
e-mail: **CMRdistributionofSROdocuments@bcsc.bc.ca**

Commentators should be aware that a copy of their comment letter will be made publicly available on the CIRO website at www.ciro.ca

1. Background

On February 15, 2024, we published for comments proposed amendments to the Investment Dealer and Partially Consolidated Rules and IDPC Form 1 (**Form 1**) relating to fully paid securities lending and financing arrangements, in Bulletin **24-0067** (**Proposed Amendments**). These amendments aim to codify into rules the existing framework governing Dealer Member (**Dealer**) fully paid lending (**FPL**) programs, which at present rely on exemptions, and associated terms and conditions, granted by the Board of Directors of CIRO (**Board**).[1]

The Proposed Amendments incorporate established requirements and safeguards that have proven effective, preserve investor protection and eliminate the need for ongoing Board exemptions. They introduce a proportional framework that prioritizes investor protection in retail fully paid lending, while allowing greater flexibility for institutional fully paid lending, in line with traditional market practices. Additionally, the Proposed Amendments clarify and streamline the rules governing financing arrangements by addressing existing drafting overlaps and inconsistencies.

In the same bulletin, we also published for comments revised guidance on fully paid securities lending (**Draft FPL Guidance**), which will replace the existing guidance **GN-4600-22-001**.

We received six (6) comment letters from the public and a few clarifying questions from the CSA in response. No significant revisions to our proposal were needed as a result of these comments, except for a few non-material revisions which we discuss in section 2.2. and 3. A summary of the comments received, and our response is provided in **Appendix J**.

The registered account restriction

The Proposed Amendments, among others, codify an existing restriction that limits Dealer FPL activity to client's non-registered accounts, meaning that retail FPL in clients' registered accounts would not be permitted under CIRO Rules.[2] The restriction was originally imposed by the Board on Dealer FPL programs as a precautionary measure, due to the uncertainty around the treatment of lending activity in registered accounts under ITA and the risk of potential adverse tax consequences for clients. In other words, the existing restriction does not stem from securities laws, but rather from tax-related considerations.

Recent tax law developments

Since publishing our Proposed Amendments, the Department of Finance has shared their view that FPL arrangements can offer benefits for both savers and financial institutions, without compromising the tax legislation objectives, particularly those around the qualified investment rules. They indicated plans to recommend amendments to the Income Tax Act to clarify that certain securities lending arrangements entered into within a registered plan, would not be treated as non-qualified investments, provided they

[1] Current FPL framework was outlined and published for transparency in **GN-4600-22-001**.

[2] An exception was made for Tax Free Savings Accounts, which historically were treated more akin to non-registered accounts, to the extent Dealers offering FPL for these accounts would ensure compliance with applicable tax laws.

meet specific conditions and with retroactive effect since January 1st, 2023. These proposed amendments were published for comment on August 15, 2025.[3]

In light of these developments, we believe that proceeding with our initial proposal to maintain and codify the registered account restriction within the CIRO Rules is no longer justified. Doing so would risk introducing confusion, regulatory misalignment, and the need for future rule revisions. Instead, we propose deferring the matter of whether FPL should be permissible in registered accounts, which is fundamentally a question of tax law rather than securities regulation, to the appropriate tax authorities.

2. Revised Proposed Amendments

2.1. Material changes - Revised Account Restriction

We are proposing to revise the Proposed Amendments by removing the initially proposed restriction in IDPC Rule subsection 4628(1) entirely.

Despite such revision, Dealers remain responsible under CIRO's general standards of conduct for ensuring that any fully paid lending arrangements entered within client's accounts, being those registered or non-registered accounts, are conducted in compliance with applicable tax laws and with full transparency to clients. Furthermore, CIRO's specific requirements governing fully paid lending, which are designed to protect investors and uphold market integrity, would apply equally to both registered and non-registered accounts. These include, among others, obtaining the client's consent to lending within their accounts, recognizing the client's right to impose lending restrictions, providing comprehensive risk disclosures, ensuring adequate collateral arrangements, and limiting lending to liquid securities with low volatility.[4]

As such, we believe the proposed revision maintains regulatory harmonization without compromising the investor protection and market integrity framework we sought to codify in our initial proposal.

2.2. Non – material changes – Consequential and clarifying

We are also making the following changes to our Proposed Amendments, which are either consequential in nature, meaning they ensure consistency within rules, or seek to enhance rule clarity in response to the comments received:

- IDPC Rule clause 4622(1)(i) has been revised to read 'the roles, rights and responsibilities of each party to the agreement...' consistent with existing CIRO requirements and contract law;
- IDPC Rule subsection 4625(1) has been removed because the contemplated asset reuse restriction therein can be interpreted more broadly than intended, inadvertently restricting certain permissible hedging strategies; clarification has been provided in the Draft FPL Guidance instead;
- IDPC Rule section 4628, has been revised with consequential changes to the proposed Revised Account Restriction and remove the word 'further', which was deemed redundant and likely to cause confusion;

[3] Please refer to clause 34 of the Legislative Proposals Relating to the Income Tax Act and the Income Tax Regulations (Technical Amendments), and related explanatory notes, published August 15, 2025, and available on the Department of Finance Canada website.

[4] Please refer to Bulletin 24-0067, for a more in-depth discussion of requirements applicable to fully paid lending.

- IDPC Rule subsection 4630(1) has been edited for enhanced drafting clarity.

These revisions are non-material and do not produce any new impact.

The revised IDPC Rules are set out in **Appendix A**. Blackline comparisons to the current IDPC Rules and the previous version published for comments are included in **Appendices B** and **C**, respectively.

In comparison, no revisions to the Proposed Amendments to Form 1 are needed. For reference, these amendments along with a blackline comparison to the current Form 1 provisions, are included in **Appendices D** and **E,** respectively**.**

3. Other revisions

In addition to the above, we have made the following consequential and clarifying revisions to the Draft FPL Guidance and the FPL securities eligibility criteria:

- ***Revisions to the Draft FPL Guidance*:** We have made changes to sections 2.3, 2.4, 2.6 and 2.9 in the guidance, in part to reflect the rule revisions discussed in section 2, above, and to also enhance guidance clarity based on comments received from the public and the CSA. The revised guidance, along with a blackline comparison to the previous version published for comments, is included in **Appendices F** and **G,** respectively.
- ***Revisions to the FPL securities eligibility criteria*:** We have made consequential changes to the FPL securities eligibility criteria,[5] to align with the Revised Account Restriction, and improve drafting. The revised criteria, along with a blackline comparison to the previous version published for comments, are included in **Appendices H** and **I**, respectively.

4. Impact of the Revised Proposed Amendments

4.1. Stakeholder impact

Overall, the proposed revisions discussed in this bulletin remain consistent with the objectives and considerations of our initial proposal, outlined in Bulletin 24-0067. They seek to achieve rule clarity and regulatory consistency without compromising the foundational objectives of client protection and market integrity. Particularly with respect to the Revised Account Restriction, the alternative of codifying the existing restriction in a departure from the direction contemplated under the tax legislation, would only create confusion and unduly interfere with market demand and investors' financial choice.

4.2. Other impacts

The proposed revisions do not impact Mutual Fund Dealers, because at present they are not permitted to engage in fully paid lending. Similarly, no regional-specific impact or impact on other policy projects as a result of these revisions has been identified.

5. Policy Development Process

5.1 Regulatory Purpose

The scope of the Revised Proposed Amendments, is to ensure rule clarity and regulatory alignment between CIRO Rules and tax legislation, thereby minimizing the risk of conflicting regulatory regimes

[5] As outlined in Bulletin 24-0067, these are existing criteria applicable to Dealer FPL programs and which we plan to carry forward under the Proposed Amendments.

and the need for future rule revisions. They have been determined to be in the public interest, consistent with the standards set out in CIRO's recognition orders, including that of ensuring flexibility and responsiveness to the future needs of the evolving capital markets, without compromising investor protection.

5.2 Regulatory Process

The Board of Directors of CIRO has determined the Revised Proposed Amendments to be in the public interest and on September 24, 2025, approved them for republication for comment.

In determining to pursue the Revised Account Restriction and republish for comment we consulted with the following stakeholders, none of whom objected to proceeding with the proposal:

- Canadian Securities Administrators,
- Department of Finance,
- Canadian Investor Protection Fund,
- CIRO's Financial and Operations Advisory Section sub-committees, and
- CIRO's Investor Advisory Panel.

After considering comments in response to this republication together with any comments of the CSA, CIRO staff may recommend further revisions. If the revisions and comments received are not material in nature, the Board has authorized the President to approve the revisions on CIRO's behalf, and the Revised Proposed Amendments will be subject to approval by the CSA. If the revisions or comments are material, CIRO staff will submit any revisions to the Board for approval for republication or implementation, as applicable.

6. Appendices

Appendix A - Revised Proposed Amendments to IDPC Rules (Clean copy)

Appendix B - Revised Proposed Amendments to IDPC Rules (Blackline comparison to current rules)

Appendix C - Revised Proposed Amendments to IDPC Rules (Blackline comparison to last publication)

Appendix D - Proposed Amendments to Form 1 (Clean copy)

Appendix E - Proposed Amendments to Form 1 (Blackline comparison to current Form 1 provisions)

Appendix F - Revised Draft FPL Guidance (Clean copy)

Appendix G - Revised Draft FPL Guidance (Blackline comparison to last publication)

Appendix H - Revised FPL securities eligibility criteria (Clean copy)

Appendix I - Revised FPL securities eligibility criteria (Blackline comparison to last publication)

Appendix J - Summary of public comments

Appendix A – Clean copy of the Revised Proposed Amendments

Investment Dealer and Partially Consolidated Rules

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RULE 1200 | DEFINITIONS

1201. Definitions

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(2) The following terms have the meanings set out when used in the *Corporation requirements:*

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"cash loan"	A cash loan receivable or a cash loan payable as defined in Form 1, Schedule 1 and 7.

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"securities loan"	A *securities* borrow or a *securities* loan arrangement as defined in Form 1, Schedule 1 and 7.

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1202. – 1299. Reserved.

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4312. Fully paid and excess margin securities and precious metals bullion

(1) A *Dealer Member* holding fully paid or excess margin *securities* and precious metals bullion for a client must:

(i) segregate those *securities* and precious metals bullion, and

(ii) identify those *securities* and precious metals bullion as being held in trust for that client.

(2) A *Dealer Member* must not use *securities* and precious metals bullion held in *segregation* for its own purposes except with the written consent of its client under the terms of a written *securities* loan agreement as detailed in Rule 4600.

(3) The *Corporation* may prescribe how *segregated securities* and *segregated precious metals bullion* are held, and how the amount or value of *securities* and *segregated precious metals bullion* to be segregated must be calculated.

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4318. Determining securities and precious metals bullion to comply with segregation requirements

(1) A *Dealer Member* may choose any *securities* or precious metals bullion from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *securities* or precious metals bullion in a cash account be segregated before unpaid *securities* or precious metals bullion.

(2) A *Dealer Member* that sells *securities* or precious metals bullion required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

(3) *Securities* or precious metals bullion required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *securities* or precious metals bullion by that client until settlement or value date.

(4) A *Dealer Member* that borrows or loans *securities* required to be segregated for a client must keep them segregated until the date the *securities* are borrowed or loaned.

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4424. Clearing

(1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.

(2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.

(3) A *Dealer Member* must take prompt action to correct differences in its *records*.

(4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.

(5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.

(6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written consent from, and provided appropriate collateral to, the client pursuant to:

(i) a margin account agreement, or

(ii) a *securities loan* agreement,

that has been executed in accordance with *Corporation requirements*.

(7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

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4429. Transferring securities

(1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.

(2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name.

(3) Only fully paid *securities* may be transferred into a name other than the *Dealer Member's* name, with the exception of new issues and *securities* borrowed by the *Dealer Member* under Part B.2. of Rule 4600.

(4) The transfer department may carry out transfers only when it receives a properly authorized request.

(5) A *Dealer Member's security* position *record* must record, and name them as, “securities out for transfer”.

(6) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.

(7) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving *securities* from transfer agents.

(8) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

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RULE 4600 | FINANCING ARRANGEMENTS - CASH LOAN, SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

(1) Rule 4600 covers requirements for *cash loans*, *securities loans*, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions.

(2) Rule 4600 is divided into the following parts:

Part A – Definitions and General Requirements

[sections 4602 – 4609]

Part B – Specific Requirements

Part B.1 - Financing arrangements with certain counterparties

[section 4610- 4619]

Part B.2 - Borrowing retail clients fully paid and excess margin *securities*

[section 4620 – 4630]

PART A – DEFINITIONS AND GENERAL REQUIREMENTS

4602. Definitions

(1) The following terms have the meaning set out below when used in Rule 4600:

"financing arrangement"	A *cash loan*, a *securities loan*, a *repurchase agreement*, or a *reverse repurchase agreement*.
*"*overnight cash loan agreement*"*	An oral or written *cash loan* agreement under which a *Dealer Member* deposits cash with another *Dealer Member* for up to two *business days*.
*"*Schedule I chartered bank*"*	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars ($1,000,000,000) or more at the time of the c*ash loan* or *securities loan* transaction.

4603. General requirements

(1) **Marking to market**

(i) Borrowed *securities* and loan collateral must be marked to market daily on a loan by loan basis.

(2) **Record transactions**

(i) A *Dealer Member* must record all financing transactions in its *records*.

(3) **Loan accounts**

(i) A *Dealer Member* must keep *Dealer Member financing arrangement* accounts separate from *Dealer Member securities* trading accounts.

(ii) A *Dealer Member* must keep client *financing arrangement* accounts separate from client *securities* trading accounts.

(4) **Confirmations and month-end statements**

(i) A *Dealer Member* must issue confirmations and month-end statements, except when the transaction with other *regulated entities* is processed through an *acceptable clearing corporation*.

(5) **Buy-ins**

(i) A *Dealer Member* must begin a buy-in (liquidating transaction) within two *business days* of the date on which the buy-in notice is given.

4604. Written agreement requirements

(1) When a *Dealer Member* enters into a *financing arrangement* agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in this section.

(2) The agreement must:

(i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults; these rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and

(v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral *securities*.

(3) If the parties agree to a secured loan as provided in sub-clause 4604(2)(v)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(4) Whether the parties rely on set off or agree to a secured loan as provided in clause 4604(2)(v), the written agreement must provide for:

(i) the *securities* borrowed or loaned, in the case of a *securities loan* agreement, or

(ii) the *securities* sold or purchased, in the case of a *repurchase agreement* or *reverse repurchase agreement*

to be free and clear of any trading restrictions under *applicable laws* and signed for transfer.

(5) When a *Dealer Member* does not have a written *cash loan* agreement, *securities loan* agreement, *repurchase agreement* or *reverse repurchase agreement*, in a form acceptable to the *Corporation*, the *Dealer Member* is subject to the margin requirements of Form 1, Schedule 1 and 7.

(6) The standard agreements prescribed and published by the *Corporation* are deemed agreement forms acceptable to the *Corporation*.

4605. - 4609. Reserved.

PART B – SPECIFIC REQUIREMENTS

PART B.1 - FINANCING ARRANGEMENTS WITH CERTAIN COUNTERPARTIES

4610. Collateral other than cash and securities

(1) When a *cash loan* or *securities loan* is between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or a *regulated entity* they may use as collateral a *Schedule I chartered bank* letter of credit.

4611. - 4619. Reserved.

PART B.2 - BORROWING RETAIL CLIENT FULLY PAID AND EXCESS MARGIN SECURITIES

4620. Applicability

(1) Part B.2 of Rule 4600 sets out specific requirements applicable to a *Dealer Member* when borrowing fully paid or excess margin *securities* from:

(i) *retail clients*, or

(ii) *institutional clients* who choose to be treated as a *retail client* for the purposes of the *securities loan* arrangement with the *Dealer Member*.

4621. Consent and suitability

(1) A *Dealer Member* can borrow client's fully paid or excess margin *securities* only upon:

(i) the lending client's prior consent as part of a written *securities loan* agreement between the borrowing *Dealer Member*, the lending client, and any third party to the arrangement, and

(ii) the determination that the arrangement is suitable to the lending client, carried out by the borrowing *Dealer Member* or any other responsible party in compliance with Rule 3400, unless they are exempt from such determination under the *Corporations requirements*.

4622. Securities loan agreement

(1) The *securities loan* agreement, entered pursuant to subsection 4621(1), must be in a form acceptable to the *Corporation* and, at a minimum, provide for:

(i) the roles, rights and responsibilities of each party to the agreement, including:

(a) the parties right to terminate the loan at any time upon prior notification

(b) the client's right to sell the loaned *securities* in a normal course of business,

(c) the client's right to the collateral in the event of the *Dealer Member*'s default, including the *Dealer Member*'s failure to recall the loaned *securities* within stipulated timeframes, and

(d) the client's right to restrict the type and total dollar value of the *securities* that the *Dealer Member* can borrow,

(ii) events of default,

(iii) the applicable revenue sharing, compensation or fees and the basis for their calculation.

4623. Disclosures

(1) At the time of entering into the *securities loan* agreement, the borrowing *Dealer Member* must:

(i) provide the lending client with adequate written disclosures regarding the loan arrangement, including the loan structure, benefits and risks for the client, as well as the following statement or a statement that is substantially similar:

Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.

and

(ii) obtain the lending client's written acknowledgment to have read and understood the disclosures provided.

(2) The statement, under clause 4623(1)(i), must also be included in the lending client's account statements.

4624. Collateral

(1) The borrowing *Dealer Member* must provide and maintain for the duration of the loan, adequate collateral to fully secure the loan.

(2) The collateral can be cash or, when so permitted by the *Corporation*, *debt securities* with a margin rate of 5% or less.

(3) The collateral value must at a minimum equal:

(i) 102% of the market value of the *securities* borrowed, for cash collateral, or

(ii) 105% of the market value of the *securities* borrowed, for *securities* collateral, when permitted by the *Corporation* under subsection 4624(2).

(4) The collateral must be held in a form that is acceptable to the *Corporation*.

(5) The following are deemed acceptable forms of collateral holding:

(i) the cash collateral is held in trust for the lending clients by the borrowing *Dealer Member* in a separate designated account with an *acceptable institution* and this trust property is clearly identified as such at that institution, or

(ii) the collateral, cash or *securities*, is held on behalf of the lending clients by a collateral agent that is a bank or trust company and qualifies as an *acceptable institution*.

4625. Asset reuse prohibition

(1) The borrowing *Dealer Member* or the lending client cannot reuse the assets provided as collateral under section 4624 to secure the loan for any other purposes.

4626. Recordkeeping

(1) Notwithstanding clause 4603(3)(ii), the *Dealer Member* must record the *securities loan* transactions in the *securities* trading account of the lending client, and such records must clearly distinguish the loaned *securities* and collateral provided.

4627. Client communications

(1) The confirmations, notices, statements and reports to the lending client must adequately disclose the *securities* on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.

4628. Restrictions on securities eligible for borrowing

(1) The *Corporation* may restrict the *securities* that a *Dealer Member* can borrow when it deems these restrictions to be in the interest of the *Dealer Member*'s clients and the public.

(2) The *securities* eligibility restrictions are published on the *Corporation*'s website.

4629. Special audit report

(1) Upon the *Corporation*'s request, the borrowing *Dealer Member* must produce a special purpose independent audit report that certifies the adequacy of the policies and procedures, systems and supervisory controls regarding the *Dealer Member*'s activity under Part B.2. of Rule 4600 and compliance with the *Corporation's requirements*.

4630. Additional requirements and restrictions

(1) The *Corporation* may prescribe additional requirements or restrictions on the *Dealer Member* activity under Part B.2. of Rule 4600, when it deems these requirements or restrictions to be in the interest of the *Dealer Member*'s clients and the public and seek to further:

(i) increase the transparency of the lending activity,

(ii) increase the likelihood of the lending client's recourse to collateral in the event of a *Dealer Member* insolvency, and

(iii) preserve market integrity.

4631. - 4699. Reserved.

SERIES 5000 | DEALER MEMBER MARGIN RULES

RULE 5100 | MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS

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5130. Definitions

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(6) For positions in and offsets involving *capital shares*, *convertible securities* and *exercisable securities*, the term:

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"currently convertible"	A *security* that is: (i) convertible within 20 *business days* into another *security*, the *underlying security*, or (ii) convertible after the expiry of a specific period into another *security*, the *underlying security*, and the *Dealer Member* or client has entered into a term *securities* borrowing agreement, which includes the minimum agreement terms specified in subsection 4604(2), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until conversion.
"currently exercisable"	A *security* that is exercisable into the *underlying security*: (i) exercisable within 20 *business days* into another *security*, the *underlying security*, or (ii) exercisable after the expiry of a specific period into another *security*, the *underlying security*, and the *Dealer Member* or client has entered into a term *securities* borrowing agreement, which includes the minimum agreement terms specified in subsection 4604(2), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until exercise.

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RULE 5800 | ACCOUNT RELATED AGREEMENTS

5801. Introduction

(1) Rule 5800 sets out the specific *Corporation requirements* for the following account related agreements:

(i) the *Corporation* standard agreements [section 5810],

(ii) account *guarantee* agreements [sections 5820 through 5825],

(iii) hedge agreements [section 5830].

5802. - 5809. Reserved.

5810. Corporation standard agreements

(1) The *Corporation* prescribes certain contents for, and has developed standard forms of, agreements that a *Dealer Member* must use in order to obtain favourable margin treatment under Rules 5200 through 5900. These agreements are described in sections 5820 through 5830 below and, in the case of the standard form *new issue letter*, in section 5530. The standard agreements posted on the *Corporation's* website are provided as agreement forms acceptable to the *Corporation*.

5811. - 5819. Reserved.

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5831. - 5899. Reserved.

5901. Introduction

(1) The general margin requirements for call loan, *cash loan*, *securities* loan, *repurchase agreements* and *reverse repurchase agreements* that are entered into between a *Dealer Member* and a counterparty client are set out in Form 1. Rule 5900 sets out specific margin requirements that apply to *cash loan*, *securities* loan, *repurchase agreements* and *reverse repurchase agreements* where, amongst other things, the compensation, price differential, fee, commission of other financing charge to be paid in connection with the agreement is calculated according to a fixed rate.

5902. Definitions

(1) The following term has the meaning set out below when used in the Rule:

"fixed rate"	A rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until the termination of the relevant agreement.

5903. Margin requirements for cash loan, securities loan, repurchase agreements, and reverse repurchase agreements with term risk

(1) Despite any margin requirement set out in Form 1 regarding a *cash loan*, *securities* loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirement for unhedged agreement positions is as follows:

Position	Special conditions	Margin required
Unhedged position		
Cash loan and *securities loan* agreements where cash is received or delivered to the *Dealer Member*, *repurchase agreement*, or *reverse repurchase agreement*	▪ the obligation to repurchase, resell or terminate the loan is outstanding for more than five *business days*, ▪ the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction,	The minimum *Dealer Member inventory margin* required for any unhedged term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada *debt security* with a term to maturity that is equal to the remaining term of the loan / agreement, as set out in section 5210(1)(i), by (ii) the loan / agreement market value.

Position	Special conditions	Margin required
Unhedged position		
	▪ the amount of any compensation, price differential, fee, commission, or other financing charge to be paid in connection with the repurchase, resale, or loan is calculated according to a *fixed rate*, and ▪ the *Dealer Member* must perform the calculations daily and make full provision for any principal and return of capital then payable, and for all accrued interest, dividends, or other distributions on *securities* used as collateral.	

(2) Despite any margin requirement set out in Form 1 regarding a *cash loan*, *securities* loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirements for offsets involving agreement positions are as follows:

Position	Special conditions	Margin required
Offsetting positions		
Cash loan or *securities loan* agreement where cash is received or delivered to the *Dealer Member*, versus *cash loan* or *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is less than one year** away for each of the offsetting positions, ▪ the offsetting positions are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk is the difference between the unhedged margin calculated for the two loan / agreement positions pursuant to subsection 5903(1)

Position	Special conditions	Margin required
Offsetting positions		
Cash loan or *securities loan* agreement where cash is received or delivered to the *Dealer Member*, versus *cash loan* or *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is greater than or equal to one year** away for each of the offsetting positions, ▪ the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada *debt security* with a term to maturity that is equal to the remaining terms of the loans / agreements, as set out in section 5210(1)(i), by (ii) the net market value of the two loans / agreements.

5904. - 5999. Reserved.

6000. – 6999. Reserved.

Appendix B – Blackline comparison of the Revised Proposed Amendments to current rules

Investment Dealer and Partially Consolidated Rules

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RULE 1200 | DEFINITIONS

1201. Definitions

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(2) The following terms have the meanings set out when used in the *Corporation requirements:*

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"cash loan"	A cash loan receivable or a cash loan payable as defined in Form 1, Schedule 1 and 7.

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"securities loan"	A *securities* borrow or a *securities* loan arrangement as defined in Form 1, Schedule 1 and 7.

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~~"written cash and securities loan agreement"~~	~~A written cash loan agreement or securities loan agreement, other than an overnight cash loan agreement (as defined in section 4602), where the Dealer Member receives or pays cash or, provides or receives securities, that contains the minimum provisions described in Part B of Rule 4600.~~

1202. – 1299. Reserved.

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4312. Fully paid and excess margin securities and precious metals bullion

(1) A *Dealer Member* holding fully paid or excess margin *securities* and precious metals bullion for a client must:

(i) segregate those *securities* and precious metals bullion, and

(ii) identify those *securities* and precious metals bullion as being held in trust for that client.

(2) A *Dealer Member* must not use *securities* and precious metals bullion held in *segregation* for its own purposes except with the ~~express~~ written ~~approval~~consent of its client under the terms of a ~~cash and~~written *securities* loan agreement as detailed in ~~section 5840~~Rule 4600.

(3) The *Corporation* may prescribe how *segregated securities* and *segregated precious metals bullion* are held, and how the amount or value of *securities* and *segregated precious metals bullion* to be segregated must be calculated.

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4318. Determining securities and precious metals bullion to comply with segregation requirements

(1) A *Dealer Member* may choose any *securities* or precious metals bullion from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *securities* or precious metals bullion in a cash account be segregated before unpaid *securities* or precious metals bullion.

(2) A *Dealer Member* that sells *securities* or precious metals bullion required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

(3) *Securities* or precious metals bullion required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *securities* or precious metals bullion by that client until settlement or value date.

(4) A *Dealer Member* that borrows or loans *securities* required to be segregated for a client must keep them segregated until the date the *securities* are borrowed or loaned.

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4424. Clearing

(1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.

(2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.

(3) A *Dealer Member* must take prompt action to correct differences in its *records*.

(4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.

(5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.

(6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written ~~permission~~consent from, and provided appropriate collateral to, the client pursuant to:

(i) a margin account agreement, or

(ii) a ~~cash and *security*~~*securities loan* agreement,

that has been executed in accordance with *Corporation requirements*.

(7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

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4429. Transferring securities

(1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.

(2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member*'s name.

(3) Only fully~~-~~ paid *securities* ~~(new issues excepted)~~ may be transferred into a name other than the *Dealer Member*'s name~~.~~, with the exception of new issues and *securities* borrowed by the *Dealer Member* under Part B.2. of Rule 4600.

(~~3~~4) The transfer department may carry out transfers only when it receives a properly authorized request.

(~~4~~5) A *Dealer Member's security* position *record* must record, and name them as, “securities out for transfer”.

(~~5~~6) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.

(~~6~~7) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving *securities* from transfer agents.

(~~7~~8) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

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RULE 4600 | FINANCING ARRANGEMENTS - CASH ~~AND~~LOAN, SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

(1) Rule 4600 covers requirements for *cash* ~~and~~*loans*, *securities* ~~loan~~*loans*, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions ~~and includes~~.

(2) Rule 4600 is divided into the following parts:

Part A – Definitions and General Requirements

[sections 4602 – 4609]

Part B – Specific Requirements

Part B.1 - Financing arrangements with certain counterparties

[section 4610- 4619]

Part B.2 - Borrowing retail clients fully paid and excess margin *securities*

[section 4620 – 4630]

~~(i) definitions,~~

~~(ii) general requirements,~~

~~(iii) written agreement requirement,~~

~~(iv) cash and *securities* loans between a *Dealer Member* and an *acceptable institution* or *acceptable counterparty,*~~

~~(v) cash and *securities* loans between *regulated entities*, and~~

~~(vi) cash and *securities* loans with other counterparties.~~

PART A – DEFINITIONS AND GENERAL REQUIREMENTS

4602. Definitions

(1) The following terms have the meaning set out below when used in Rule 4600:

"financing arrangement"	A *cash loan*, a *securities loan*, a *repurchase agreement*, or a *reverse repurchase agreement*.
"overnight cash loan agreement"	An oral or written *cash loan* agreement under which a *Dealer Member* deposits cash with another *Dealer Member* for up to two *business days*.
"Schedule I chartered bank"	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars ($1,000,000,000) or more at the time of the *cash loan* or *securities loan* transaction.

4603. General requirements

(1) **Marking to market**

(i) Borrowed *securities* and loan collateral must be marked to market daily on a loan by loan basis.

(2) **Record transactions**

(i) A *Dealer Member* must record all financing transactions in its *records*.

(3) **Loan accounts**

(i) A *Dealer Member* must keep *Dealer Member financing arrangement* accounts separate from ~~the~~ *Dealer Member*~~'s~~ *securities* trading accounts.

(ii) A *Dealer Member* must keep client *financing arrangement* accounts separate from ~~the~~ client~~'s~~ *securities* trading accounts.

(4) **Confirmations and month-end statements**

(i) A *Dealer Member* must issue confirmations and month-end statements, except when the transaction with other *regulated entities* is processed through an *acceptable clearing corporation*.

(5) **Buy-ins**

(i) A *Dealer Member* must begin a buy-in (liquidating transaction) within two *business days* of the date on which the buy-in notice is given.

4604. Written agreement ~~requirement~~requirements

(1) ~~If~~When a *Dealer Member* ~~has a cash and *securities* loan~~ enters into a *financing arrangement* agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in this section ~~5840~~.

(2) The agreement must:

(i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults; these rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and

(v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral *securities*.

(3) If the parties agree to a secured loan as provided in sub-clause 4604(2)(v)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(4) Whether the parties rely on set off or agree to a secured loan as provided in clause 4604(2)(v), the written agreement must provide for:

(i) the *securities* borrowed or loaned, in the case of a *securities loan* agreement, or

(ii) the *securities* sold or purchased, in the case of a *repurchase agreement* or *reverse repurchase agreement*

to be free and clear of any trading restrictions under *applicable laws* and signed for transfer.

(5) When a *Dealer Member* does not have a written *cash loan* agreement, *securities loan* agreement, *repurchase agreement* or *reverse repurchase agreement*, in a form acceptable to the *Corporation*, the *Dealer Member* is subject to the margin requirements of Form 1, Schedule 1 and 7.

(6) The standard agreements prescribed and published by the *Corporation* are deemed agreement forms acceptable to the *Corporation*.

~~(2) If a *Dealer Member* has a written agreement for *repurchase agreement* transaction or *reverse repurchase agreement* transaction, that agreement must include the parties' acknowledgment that either has the right, on notice, to call for any shortfall in the difference between the collateral and the *securities* at any time.~~

~~(3) If a *Dealer Member* does not have a written agreement for a *securities* loan, a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, then applicable margin rates are affected.~~

4605. - 4609. Reserved.

PART B – SPECIFIC REQUIREMENTS

PART B.1 - FINANCING ARRANGEMENTS WITH CERTAIN COUNTERPARTIES

4610. Collateral other than cash and securities ~~**4605. Cash and securities loans between a Dealer Member and an acceptable institution or acceptable counterparty**~~

(1) When a *cash loan* or *securities loan* is between a *Dealer Member* and an *acceptable institution* ~~or an~~, *acceptable counterparty*, or a *regulated entity* they may use as collateral ~~letters of credit that~~ a *Schedule I chartered bank* ~~issues~~ letter of credit.

~~**4606. Cash and securities loans between regulated entities**~~

~~(1) If a cash or *securities* loan is between regulated entities:~~

~~(i) the written cash and *securities* loan agreement must state that either party has the right, at any time by giving notice to the other party, to call for any shortfall in the difference between the collateral and the borrowed cash or *securities*, and~~

~~(ii) they may use as collateral, a Schedule I chartered bank letter of credit.~~

~~**4607. Cash and securities loans with other counterparties**~~

~~(1) When a cash or *securities* loan is between a *Dealer Member* and a party to which neither section 4605 nor 4606 applies, a *Dealer Member* must comply with subsections 4607(2) and 4607(3).~~

~~(2) *Securities* pledged as collateral must:~~

~~(i) be held by:~~

~~(a) the *Dealer Member* in *segregation*,~~

~~(b) an *acceptable clearing corporation*, or~~

~~(c) a bank or trust company that is either an *acceptable institution* or an *acceptable counterparty* under an escrow agreement. The escrow agreement must be between the *Dealer Member* and the depository, institution, or counterparty and must be in a form acceptable to the *Corporation*,~~

~~(ii) either:~~

~~(a) be *securities* with a margin rate of 5% or less, or~~

~~(b) be preferred shares or *debt securities*, convertible into common shares of the class borrowed.~~

~~(3) If a *Dealer Member* does not comply with subsection 4607(2) or clause 4603(3)(i), its net allowable assets are subject to a charge calculated in the same manner as for client account short *securities* balances.~~

4611. - 4619. Reserved.

PART B.2 - BORROWING RETAIL CLIENT FULLY PAID AND EXCESS MARGIN SECURITIES

4620. Applicability

(1) Part B.2 of Rule 4600 sets out specific requirements applicable to a *Dealer Member* when borrowing fully paid or excess margin *securities* from:

(i) *retail clients*, or

(ii) *institutional clients* who choose to be treated as a *retail client* for the purposes of the *securities loan* arrangement with the *Dealer Member*.

4621. Consent and suitability

(1) A *Dealer Member* can borrow client's fully paid or excess margin *securities* only upon:

(i) the lending client's prior consent as part of a written *securities loan* agreement between the borrowing *Dealer Member*, the lending client, and any third party to the arrangement, and

(ii) the determination that the arrangement is suitable to the lending client, carried out by the borrowing *Dealer Member* or any other responsible party in compliance with Rule 3400, unless they are exempt from such determination under the *Corporations requirements*.

4622. Securities loan agreement

(1) The *securities loan* agreement, entered pursuant to subsection 4621(1), must be in a form acceptable to the *Corporation* and, at a minimum, provide for:

(i) the roles, rights and responsibilities of each party to the agreement, including:

(a) the parties right to terminate the loan at any time upon prior notification

(b) the client's right to sell the loaned *securities* in a normal course of business,

(c) the client's right to the collateral in the event of the *Dealer Member*'s default, including the *Dealer Member*'s failure to recall the loaned *securities* within stipulated timeframes, and

(d) the client's right to restrict the type and total dollar value of the *securities* that the *Dealer Member* can borrow,

(ii) events of default,

(iii) the applicable revenue sharing, compensation or fees and the basis for their calculation.

4623. Disclosures

(1) At the time of entering into the *securities loan* agreement, the borrowing *Dealer Member* must:

(i) provide the lending client with adequate written disclosures regarding the loan arrangement, including the loan structure, benefits and risks for the client, as well as the following statement or a statement that is substantially similar:

Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.

and

(ii) obtain the lending client's written acknowledgment to have read and understood the disclosures provided.

(2) The statement, under clause 4623(1)(i), must also be included in the lending client's account statements.

4624. Collateral

(1) The borrowing *Dealer Member* must provide and maintain for the duration of the loan, adequate collateral to fully secure the loan.

(2) The collateral can be cash or, when so permitted by the *Corporation*, *debt securities* with a margin rate of 5% or less.

(3) The collateral value must at a minimum equal:

(i) 102% of the market value of the *securities* borrowed, for cash collateral, or

(ii) 105% of the market value of the *securities* borrowed, for *securities* collateral, when permitted by the Corporation under subsection 4624(2).

(4) The collateral must be held in a form that is acceptable to the *Corporation*.

(5) The following are deemed acceptable forms of collateral holding:

(i) the cash collateral is held in trust for the lending clients by the borrowing *Dealer Member* in a separate designated account with an *acceptable institution* and this trust property is clearly identified as such at that institution, or

(ii) the collateral, cash or *securities*, is held on behalf of the lending clients by a collateral agent that is a bank or trust company and qualifies as an *acceptable institution*.

4625. Asset reuse prohibition

(1) The borrowing *Dealer Member* or the lending client cannot reuse the assets provided as collateral under section 4624 to secure the loan for any other purposes.

4626. Recordkeeping

(1) Notwithstanding clause 4603(3)(ii), the *Dealer Member* must record the *securities loan* transactions in the *securities* trading account of the lending client, and such records must clearly distinguish the loaned *securities* and collateral provided.

4627. Client communications

(1) The confirmations, notices, statements and reports to the lending client must adequately disclose the *securities* on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.

4628. Restrictions on securities eligible for borrowing

(1) The *Corporation* may restrict the *securities* that a *Dealer Member* can borrow when it deems these restrictions to be in the interest of the *Dealer Member*'s clients and the public.

(2) The *securities* eligibility restrictions are published on the *Corporation*'s website.

4629. Special audit report

(1) Upon the *Corporation*'s request, the borrowing *Dealer Member* must produce a special purpose independent audit report that certifies the adequacy of the policies and procedures, systems and supervisory controls regarding the *Dealer Member*'s activity under Part B.2. of Rule 4600 and compliance with the *Corporation's requirements*.

4630. Additional requirements and restrictions

(1) The *Corporation* may prescribe additional requirements or restrictions on the *Dealer Member* activity under Part B.2. of Rule 4600, when it deems these requirements or restrictions to be in the interest of the *Dealer Member*'s clients and the public and seek to further:

(i) increase the transparency of the lending activity,

(ii) increase the likelihood of the lending client's recourse to collateral in the event of a *Dealer Member* insolvency, and

(iii) preserve market integrity.

~~4608~~4631. - 4699. Reserved.

SERIES 5000 | DEALER MEMBER MARGIN RULES

RULE 5100 | MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS

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5130. Definitions

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(6) For positions in and offsets involving *capital shares*, *convertible securities* and *exercisable securities*, the term:

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"currently convertible"	A *security* that is: (i) convertible within 20 *business days* into another *security*, the *underlying security*, or (ii) convertible after the expiry of a specific period into another *security*, the *underlying security*, and the *Dealer Member* or client has entered into a term *securities* borrowing agreement, which includes the minimum agreement terms specified in subsection ~~5840(3~~4604(2), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until conversion.
"currently exercisable"	A *security* that is exercisable into the *underlying security*: (i) exercisable within 20 *business days* into another *security*, the *underlying security*, or (ii) exercisable after the expiry of a specific period into another *security*, the *underlying security*, and the *Dealer Member* or client has entered into a term *securities* borrowing agreement, which includes the minimum agreement terms specified in subsection ~~5840(3~~4604(2), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until exercise.

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5801. Introduction

(1) Rule 5800 sets out the specific *Corporation requirements* for the following account related agreements:

(i) the *Corporation* standard agreements [section 5810],

(ii) account *guarantee* agreements [sections 5820 through 5825],

(iii) hedge agreements [section 5830]~~,~~

~~(iv) cash and *securities* loan agreements [section 5840], and~~

~~(v) *repurchase agreements* and *reverse repurchase agreements* [section 5850]~~.

5802. - 5809. Reserved.

5810. Corporation standard agreements

(1) The *Corporation* prescribes certain contents for, and has developed standard forms of, agreements that a *Dealer Member* must use in order to obtain favourable margin treatment~~, or avoid capital penalties,~~ under Rules 5200 through 5900. These agreements are described in sections 5820 through ~~5850~~5830 below and, in the case of the standard form *new issue letter*, in section 5530. The standard agreements posted on the *Corporation's* website are provided as agreement forms acceptable to the *Corporation*.

5811. - 5819. Reserved.

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~~**5831. - 5839. Reserved.**~~

~~**5840. Cash and securities loan agreements**~~

~~(1) A cash and *securities* loan is the lending of *securities* for cash collateral or vice versa, other than an overnight cash loan.~~

~~(2) To avoid the margin penalties in Form 1 for cash and *securities* loan transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5840(3).~~

~~(3) This *written cash and securities loan agreement* must:~~

~~(i) set out the rights of each party to retain and realize on the *securities* delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,~~

~~(ii) set out events of default,~~

~~(iii) provide for treatment of the *securities* or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and~~

(iv) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral *securities*.

(4) If the parties agree to a secured loan as provided in sub-clause 5840(3)(iv)(b), and there is more than one method for the lender to perfect its *security* interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(5) Whether the parties rely on set off or agree to a secured loan as provided in clause 5840(3)(iv), the *written cash and securities loan agreement* must provide for the *securities* borrowed and loaned to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

5841. - 5849. Reserved.

5850. Repurchase agreements and reverse repurchase agreements

(1) To avoid the margin penalties in Form 1 for *repurchase agreement* and *reverse repurchase agreement* transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5850(2).

(2) A written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must:

(i) set out the rights of each party to retain and realize on the *securities* delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the *securities* or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and

(iv) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

(3) If the parties agree to the agreement as provided in sub-clause 5850(2)(iv)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(4) Whether the parties rely on set off or agree to a secured loan as provided in clause 5850(2)(iv), the written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must provide for the sold or purchased *securities* to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

58515831. - 5899. Reserved.

5901. Introduction

(1) The general margin requirements for call loan, *cash* ~~and~~*loan,* *securities* loan, *repurchase agreements* and *reverse repurchase agreements* that are entered into between a *Dealer Member* and a counterparty client are set out in Form 1. Rule 5900 sets out specific margin requirements that apply to *cash loan, securities* loan, *repurchase agreements* and *reverse repurchase agreements* where, amongst other things, the compensation, price differential, fee, commission of other financing charge to be paid in connection with the agreement is calculated according to a fixed rate.

5902. Definitions

(1) The following term has the meaning set out below when used in the Rule:

"fixed rate"	A rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until the termination of the relevant agreement.

5903. Margin requirements for cash loan, securities loan, repurchase agreements, and reverse repurchase agreements with term risk

(1) Despite any margin requirement set out in Form 1 regarding a *cash loan, securities* loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirement for unhedged agreement positions is as follows:

Position	Special conditions	Margin required
Unhedged position		
~~*Securities*~~*Cash loan* and *securities loan* agreements where cash is received or delivered to the *Dealer Member*, *repurchase agreement*, or *reverse repurchase agreement*	▪ the obligation to repurchase, resell or terminate the loan is outstanding for more than five *business days*, ▪ the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction,	The minimum *Dealer Member inventory margin* required for any unhedged term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada *debt security* with a term to maturity that is equal to the remaining term of the loan / agreement, as set out in section 5210(1)(i), by (ii) the loan / agreement market value.

Position	Special conditions	Margin required
Unhedged position		
	▪ the amount of any compensation, price differential, fee, commission, or other financing charge to be paid in connection with the repurchase, resale, or loan is calculated according to a *fixed rate*, and ▪ the *Dealer Member* must perform the calculations daily and make full provision for any principal and return of capital then payable, and for all accrued interest, dividends, or other distributions on *securities* used as collateral.	

(2) Despite any margin requirement set out in Form 1 regarding a *cash loan,* *securities* loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirements for offsets involving agreement positions ~~is~~ are as follows:

Position	Special conditions	Margin required
Offsetting positions		
~~*Securities*~~*Cash loan* or *securities loan* agreement where cash is received or delivered to the *Dealer Member,* versus *cash loan* or *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is less than one year** away for each of the offsetting positions, ▪ the offsetting positions are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk is the difference between the unhedged margin calculated for the two loan / agreement positions pursuant to subsection 5903(1)

Position	Special conditions	Margin required
Offsetting positions		
~~*Securities*~~*Cash loan* or *securities loan* agreement where cash is received or delivered to the *Dealer Member,* versus *cash loan* or *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is greater than or equal to one year** away for each of the offsetting positions, ▪ the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada *debt security* with a term to maturity that is equal to the remaining terms of the loans / agreements, as set out in section 5210(1)(i), by (ii) the net market value of the two loans / agreements.

5904. - 5999. Reserved.

6000. – 6999. Reserved.

Appendix C – Blackline comparison of the Revised Proposed Amendments to last publication

Investment Dealer and Partially Consolidated Rules

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RULE 1200 | DEFINITIONS

1201. Definitions

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(2) The following terms have the meanings set out when used in the *Corporation requirements:*

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"cash loan"	A cash loan receivable or a cash loan payable as defined in Form 1, Schedule 1 and 7.

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"securities loan"	A *securities* borrow or a *securities* loan arrangement as defined in Form 1, Schedule 1 and 7.

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1202. – 1299. Reserved.

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4312. Fully paid and excess margin securities and precious metals bullion

(1) A *Dealer Member* holding fully paid or excess margin *securities* and precious metals bullion for a client must:

(i) segregate those *securities* and precious metals bullion, and

(ii) identify those *securities* and precious metals bullion as being held in trust for that client.

(2) A *Dealer Member* must not use *securities* and precious metals bullion held in *segregation* for its own purposes except with the written consent of its client under the terms of a written *securities* loan agreement as detailed in Rule 4600.

(3) The *Corporation* may prescribe how *segregated securities* and *segregated precious metals bullion* are held, and how the amount or value of *securities* and *segregated precious metals bullion* to be segregated must be calculated.

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4318. Determining securities and precious metals bullion to comply with segregation requirements

(1) A *Dealer Member* may choose any *securities* or precious metals bullion from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *securities* or precious metals bullion in a cash account be segregated before unpaid *securities* or precious metals bullion.

(2) A *Dealer Member* that sells *securities* or precious metals bullion required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

(3) *Securities* or precious metals bullion required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *securities* or precious metals bullion by that client until settlement or value date.

(4) A *Dealer Member* that borrows or loans *securities* required to be segregated for a client must keep them segregated until the date the *securities* are borrowed or loaned.

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4424. Clearing

(1) A *Dealer Member* must promptly compare and balance its *records* with reports of the previous day's settlements.

(2) Only *employees* who do not carry out trading functions may reconcile clearing or settlement accounts.

(3) A *Dealer Member* must take prompt action to correct differences in its *records*.

(4) A *Dealer Member* must regularly review aged "fails to deliver" and "fails to receive" and identify the reason for settlement delay.

(5) Any fail that continues for an extended period of time must be promptly reported to the *Dealer Member's* appropriate *Executives*.

(6) A *Dealer Member* must not use a client account *security* position to settle a short "pro" sale unless it has obtained written consent from, and provided appropriate collateral to, the client pursuant to:

(i) a margin account agreement, or

(ii) a *securities loan* agreement,

that has been executed in accordance with *Corporation requirements*.

(7) A *Dealer Member* must reconcile its *records* daily with clearing corporation and depository *records* to ensure they agree.

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4429. Transferring securities

(1) A *Dealer Member* must maintain a *record* showing all *securities* sent to, and held by, transfer agents.

(2) Only authorized *employees* outside the transfer department should be able to request transfers into a name other than the *Dealer Member's* name.

(3) Only fully paid *securities* may be transferred into a name other than the *Dealer Member's* name, with the exception of new issues and *securities* borrowed by the *Dealer Member* under Part B.2. of Rule 4600.

(4) The transfer department may carry out transfers only when it receives a properly authorized request.

(5) A *Dealer Member's security* position *record* must record, and name them as, “securities out for transfer”.

(6) A *Dealer Member* must have a receipt for a *securities* position at a transfer agent.

(7) A *Dealer Member* must prepare, and the department manager or another appropriate manager must review, a weekly ageing of all transfer positions to verify the validity of the positions and the reasons for any undue delay in receiving *securities* from transfer agents.

(8) Authorized *employees* handling transfers must not have other *security* cage functions such as deliveries, or the management of current box and segregated box positions.

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RULE 4600 | FINANCING ARRANGEMENTS - CASH LOAN, SECURITIES LOAN, REPURCHASE AGREEMENT, AND REVERSE REPURCHASE AGREEMENT TRANSACTIONS

4601. Introduction

(1) Rule 4600 covers requirements for *cash loans*, *securities loans*, *repurchase agreement* transactions, and *reverse repurchase agreement* transactions.

(2) Rule 4600 is divided into the following parts:

Part A – Definitions and General Requirements

[sections 4602 – 4609]

Part B – Specific Requirements

Part B.1 - Financing arrangements with certain counterparties

[section 4610- 4619]

Part B.2 - Borrowing retail clients fully paid and excess margin *securities*

[section 4620 – 4630]

PART A – DEFINITIONS AND GENERAL REQUIREMENTS

4602. Definitions

(1) The following terms have the meaning set out below when used in Rule 4600:

"financing arrangement"	A *cash loan*, a *securities loan*, a *repurchase agreement*, or a *reverse repurchase agreement*.
*"*overnight cash loan agreement*"*	An oral or written *cash loan* agreement under which a *Dealer Member* deposits cash with another *Dealer Member* for up to two *business days*.
*"*Schedule I chartered bank*"*	A Schedule I bank under the Bank Act (Canada) that has a capital and reserves position of one billion dollars ($1,000,000,000) or more at the time of the c*ash loan* or *securities loan* transaction.

4603. General requirements

(1) **Marking to market**

(i) Borrowed *securities* and loan collateral must be marked to market daily on a loan by loan basis.

(2) **Record transactions**

(i) A *Dealer Member* must record all financing transactions in its *records*.

(3) **Loan accounts**

(i) A *Dealer Member* must keep *Dealer Member financing arrangement* accounts separate from *Dealer Member securities* trading accounts.

(ii) A *Dealer Member* must keep client *financing arrangement* accounts separate from client *securities* trading accounts.

(4) **Confirmations and month-end statements**

(i) A *Dealer Member* must issue confirmations and month-end statements, except when the transaction with other *regulated entities* is processed through an *acceptable clearing corporation*.

(5) **Buy-ins**

(i) A *Dealer Member* must begin a buy-in (liquidating transaction) within two *business days* of the date on which the buy-in notice is given.

4604. Written agreement requirements

(1) When a *Dealer Member* enters into a *financing arrangement* agreement, other than an *overnight cash loan* agreement, that agreement must be in writing and contain the minimum provisions described in this section.

(2) The agreement must:

(i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults; these rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and

(v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral *securities*.

(3) If the parties agree to a secured loan as provided in sub-clause 4604(2)(v)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

(4) Whether the parties rely on set off or agree to a secured loan as provided in clause 4604(2)(v), the written agreement must provide for:

(i) the *securities* borrowed or loaned, in the case of a *securities loan* agreement, or

(ii) the *securities* sold or purchased, in the case of a *repurchase agreement* or *reverse repurchase agreement*

to be free and clear of any trading restrictions under *applicable laws* and signed for transfer.

(5) When a *Dealer Member* does not have a written *cash loan* agreement, *securities loan* agreement, *repurchase agreement* or *reverse repurchase agreement*, in a form acceptable to the *Corporation*, the *Dealer Member* is subject to the margin requirements of Form 1, Schedule 1 and 7.

(6) The standard agreements prescribed and published by the *Corporation* are deemed agreement forms acceptable to the *Corporation*.

4605. - 4609. Reserved.

PART B – SPECIFIC REQUIREMENTS

PART B.1 - FINANCING ARRANGEMENTS WITH CERTAIN COUNTERPARTIES

4610. Collateral other than cash and securities

(1) When a *cash loan* or *securities loan* is between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or a *regulated entity* they may use as collateral a *Schedule I chartered bank* letter of credit.

4611. - 4619. Reserved.

PART B.2 - BORROWING RETAIL CLIENT FULLY PAID AND EXCESS MARGIN SECURITIES

4620. Applicability

(1) Part B.2 of Rule 4600 sets out specific requirements applicable to a *Dealer Member* when borrowing fully paid or excess margin *securities* from:

(i) *retail clients*, or

(ii) *institutional clients* who choose to be treated as a *retail client* for the purposes of the *securities loan* arrangement with the *Dealer Member*.

4621. Consent and suitability

(1) A *Dealer Member* can borrow client's fully paid or excess margin *securities* only upon:

(i) the lending client's prior consent as part of a written *securities loan* agreement between the borrowing *Dealer Member*, the lending client, and any third party to the arrangement, and

(ii) the determination that the arrangement is suitable to the lending client, carried out by the borrowing *Dealer Member* or any other responsible party in compliance with Rule 3400, unless they are exempt from such determination under the *Corporations requirements*.

4622. Securities loan agreement

(1) The *securities loan* agreement, entered pursuant to subsection 4621(1), must be in a form acceptable to the *Corporation* and, at a minimum, provide for:

(i) the roles, rights and responsibilities of each party to the agreement, including:

(a) the parties right to terminate the loan at any time upon prior notification

(b) the client's right to sell the loaned *securities* in a normal course of business,

(c) the client's right to the collateral in the event of the *Dealer Member*'s default, including the *Dealer Member*'s failure to recall the loaned *securities* within stipulated timeframes, and

(d) the client's right to restrict the type and total dollar value of the *securities* that the *Dealer Member* can borrow,

(ii) events of default,

(iii) the applicable revenue sharing, compensation or fees and the basis for their calculation.

4623. Disclosures

(1) At the time of entering into the *securities loan* agreement, the borrowing *Dealer Member* must:

(i) provide the lending client with adequate written disclosures regarding the loan arrangement, including the loan structure, benefits and risks for the client, as well as the following statement or a statement that is substantially similar:

Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.

and

(ii) obtain the lending client's written acknowledgment to have read and understood the disclosures provided.

(2) The statement, under clause 4623(1)(i), must also be included in the lending client's account statements.

4624. Collateral

(1) The borrowing *Dealer Member* must provide and maintain for the duration of the loan, adequate collateral to fully secure the loan.

(2) The collateral can be cash or, when so permitted by the *Corporation*, *debt securities* with a margin rate of 5% or less.

(3) The collateral value must at a minimum equal:

(i) 102% of the market value of the *securities* borrowed, for cash collateral, or

(ii) 105% of the market value of the *securities* borrowed, for *securities* collateral, when permitted by the *Corporation* under subsection 4624(2).

(4) The collateral must be held in a form that is acceptable to the *Corporation*.

(5) The following are deemed acceptable forms of collateral holding:

(i) the cash collateral is held in trust for the lending clients by the borrowing *Dealer Member* in a separate designated account with an *acceptable institution* and this trust property is clearly identified as such at that institution, or

(ii) the collateral, cash or *securities*, is held on behalf of the lending clients by a collateral agent that is a bank or trust company and qualifies as an *acceptable institution*.

4625. Asset reuse prohibition

~~(1) The lending client cannot use the *securities* loaned under this Part B.2 of Rule 4600 in any hedging strategy while such *securities* are on loan.~~

(~~2~~1) The borrowing *Dealer Member* or the lending client cannot reuse the assets~~,~~ provided as collateral under section 4624 to secure the loan~~,~~ for any other purposes.

4626. Recordkeeping

(1) Notwithstanding clause 4603(3)(ii), the *Dealer Member* must record the *securities loan* transactions in the *securities* trading account of the lending client, and such records must clearly distinguish the loaned *securities* and collateral provided.

4627. Client communications

(1) The confirmations, notices, statements and reports to the lending client must adequately disclose the *securities* on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.

4628. Restrictions on ~~S~~securities eligible for borrowing

~~(1) A *Dealer Member* can borrow under Part B.2. of Rule 4600 only *securities* held by clients in their non-registered accounts.~~

(1~~2~~) The *Corporation* may ~~further~~ restrict the *securities* that a *Dealer Member* can borrow when it deems these ~~further~~ restrictions to be in the interest of the *Dealer Member*'s clients and the public.

(2~~3~~) The *securities* eligibility restrictions are published on the *Corporation*'s website.

4629. Special audit report

(1) Upon the *Corporation*'s request, the borrowing *Dealer Member* must produce a special purpose independent audit report that certifies the adequacy of the policies and procedures, systems and supervisory controls regarding the *Dealer Member*'s activity under Part B.2. of Rule 4600 and compliance with the *Corporation's requirements*.

4630. Additional requirements and restrictions

(1) The *Corporation* may prescribe additional requirements or restrictions on the *Dealer Member* activity under Part B.2. of Rule 4600, when it deems these requirements or restrictions to be in the interest of the *Dealer Member*'s clients and the public and seek to further:

(i) increase the transparency of the lending activity,

(ii) increase the likelihood of the lending client's recourse to collateral in the event of a *Dealer Member* insolvency, and

(iii) preserve market integrity.

4631. - 4699. Reserved.

SERIES 5000 | DEALER MEMBER MARGIN RULES

RULE 5100 | MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS

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5130. Definitions

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(6) For positions in and offsets involving *capital shares*, *convertible securities* and *exercisable securities*, the term:

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"currently convertible"	A *security* that is: (i) convertible within 20 *business days* into another *security*, the *underlying security*, or (ii) convertible after the expiry of a specific period into another *security*, the *underlying security*, and the *Dealer Member* or client has entered into a term *securities* borrowing agreement, which includes the minimum agreement terms specified in subsection 4604(2), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until conversion.
"currently exercisable"	A *security* that is exercisable into the *underlying security*: (i) exercisable within 20 *business days* into another *security*, the *underlying security*, or (ii) exercisable after the expiry of a specific period into another *security*, the *underlying security*, and the *Dealer Member* or client has entered into a term *securities* borrowing agreement, which includes the minimum agreement terms specified in subsection 4604(2), enabling a borrow of the *underlying security* for the entire period from the current date until the expiry of the specific period until exercise.

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5801. Introduction

(1) Rule 5800 sets out the specific *Corporation requirements* for the following account related agreements:

(i) the *Corporation* standard agreements [section 5810],

(ii) account *guarantee* agreements [sections 5820 through 5825],

(iii) hedge agreements [section 5830]~~,~~.

5802. - 5809. Reserved.

5810. Corporation standard agreements

(1) The *Corporation* prescribes certain contents for, and has developed standard forms of, agreements that a *Dealer Member* must use in order to obtain favourable margin treatment under Rules 5200 through 5900. These agreements are described in sections 5820 through 5830 below and, in the case of the standard form *new issue letter*, in section 5530. The standard agreements posted on the *Corporation's* website are provided as agreement forms acceptable to the *Corporation*.

5811. - 5819. Reserved.

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5831. - 5899. Reserved.

5901. Introduction

(1) The general margin requirements for call loan, *cash loan*, *securities* loan, *repurchase agreements* and *reverse repurchase agreements* that are entered into between a *Dealer Member* and a counterparty client are set out in Form 1. Rule 5900 sets out specific margin requirements that apply to *cash loan*, *securities* loan, *repurchase agreements* and *reverse repurchase agreements* where, amongst other things, the compensation, price differential, fee, commission of other financing charge to be paid in connection with the agreement is calculated according to a fixed rate.

5902. Definitions

(1) The following term has the meaning set out below when used in the Rule:

"fixed rate"	A rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until the termination of the relevant agreement.

5903. Margin requirements for cash loan, securities loan, repurchase agreements, and reverse repurchase agreements with term risk

(1) Despite any margin requirement set out in Form 1 regarding a *cash loan*, *securities* loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirement for unhedged agreement positions is as follows:

Position	Special conditions	Margin required
Unhedged position		
Cash loan and *securities loan* agreements where cash is received or delivered to the *Dealer Member*, *repurchase agreement*, or *reverse repurchase agreement*	▪ the obligation to repurchase, resell or terminate the loan is outstanding for more than five *business days*, ▪ the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction,	The minimum *Dealer Member inventory margin* required for any unhedged term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada *debt security* with a term to maturity that is equal to the remaining term of the loan / agreement, as set out in section 5210(1)(i), by (ii) the loan / agreement market value.

Position	Special conditions	Margin required
Unhedged position		
	▪ the amount of any compensation, price differential, fee, commission, or other financing charge to be paid in connection with the repurchase, resale, or loan is calculated according to a *fixed rate*, and ▪ the *Dealer Member* must perform the calculations daily and make full provision for any principal and return of capital then payable, and for all accrued interest, dividends, or other distributions on *securities* used as collateral.	

(2) Despite any margin requirement set out in Form 1 regarding a *cash loan*, *securities* loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirements for offsets involving agreement positions ~~is~~are as follows:

Position	Special conditions	Margin required
Offsetting positions		
Cash loan or *securities loan* agreement where cash is received or delivered to the *Dealer Member*, versus *cash loan* or *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is less than one year** away for each of the offsetting positions, ▪ the offsetting positions are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk is the difference between the unhedged margin calculated for the two loan / agreement positions pursuant to subsection 5903(1)

Position	Special conditions	Margin required
Offsetting positions		
Cash loan or *securities loan* agreement where cash is received or delivered to the *Dealer Member*, versus *cash loan* or *securities loan* **or** *Repurchase agreement* versus *reverse repurchase agreement*	▪ the date of repurchase, resale, or termination of a loan **is greater than or equal to one year** away for each of the offsetting positions, ▪ the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.	The minimum *Dealer Member inventory margin* required for any residual offset term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada *debt security* with a term to maturity that is equal to the remaining terms of the loans / agreements, as set out in section 5210(1)(i), by (ii) the net market value of the two loans / agreements.

5904. - 5999. Reserved.

6000. – 6999. Reserved.

Appendix D – Clean copy of the Proposed Amendments

Form 1, Part I – Statement D
Notes and instructions

(1) 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.

(2) **Section A, Lines 2 and 3 -** *Free credit balances* in RRSP and other similar accounts should not be included. Refer to the notes and instructions to Schedule 4 for discussion of trade versus settlement date reporting of *free credit balances*. Where the *Dealer Member* has borrowed the client's fully paid or excess margin securities and cash collateral is provided to the client by the *Dealer Member*, the cash collateral should not be included in *free credit balances*.

For purposes of this statement, a free credit is:

(i) 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.

(ii) 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.

(3) **Section A, Line 5 -** If nil, no further calculation on this Statement need be done.

(4) **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.

(5) **Section D, Line 1 -** The cash must be segregated in trust for clients in a separate account or accounts with an *acceptable institution* and this trust property must be clearly identified as such at the *acceptable institution*.

This calculation should exclude funds held in trust for RRSP and other similar accounts.

(6) **Section D, Line 2 -** The following securities are eligible for client free credit *segregation* purposes, provided they are segregated and held separate and apart from the *Dealer Member's* property:

Securities eligible for client free credit segregation purposes			
Category		**Minimum designated rating organization current credit rating**	**Qualification(s)**
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following: (i) national governments of Canada, United Kingdom, and United States, or (ii) Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government of a *Basel Accord country*
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No *designated rating organization* has a lower current credit rating Must be issued by a Canadian *chartered bank*

			Securities issued by a *provider of capital*, as defined in the notes and instructions to Schedule 14 are not eligible

(7) **Section D, Line 4 -** If negative, then a *segregation* deficiency exists, and the *Dealer Member* must 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 and the date of correction.

Form 1, Part II – Schedule 1
Notes and instructions

(1) This schedule is to be completed for secured loan receivable transactions where the stated purpose of the transaction is to lend excess cash. All security borrowing and financing transactions done via 2 trade tickets, including resale transactions and those with related parties, should also be disclosed on this schedule.

(2) For the purpose of this schedule, the following terms have the meanings set out below:

"cash loan receivable"	A loan transaction where the purpose of the loan is for the *Dealer Member* to lend cash and receive securities as collateral from the counterparty.
"excess collateral deficiency"	(i) For a *cash loan receivable*, any excess of the amount of the loan over the *market value* of the actual collateral received from the transaction counterparty, or (ii) For a *securities borrow arrangement*, any excess of the *market value* of the actual collateral provided to the transaction counterparty over: (a) 102% of the *market value* of the securities borrowed, where cash is provided as collateral, or (b) 105% of the *market value* of the securities borrowed, where securities are provided as collateral.
"securities borrow arrangement"	A loan transaction where the purpose of the loan is for the *Dealer Member* to borrow securities and deliver cash or securities as collateral to the counterparty.

(3) Include accrued interest in amount of loan receivable.

(4) *Market value* of securities delivered or received as collateral should include accrued interest.

(5) **Written agreement requirements**

Any written agreement for a *cash loan receivable*, *securities borrow arrangement* or securities resale arrangement must:

(i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and

(v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (v)(b) above, the written agreement must provide for the securities borrowed in the case of a *securities loan arrangement*, or the securities purchased in the case of a resale arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) **Cash loan receivable**

(i) Margin requirements

The margin requirements for a *cash loan receivable* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) **Securities borrow arrangements**

(i) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:

(I) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the *Dealer Member*.

(ii) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities), which is accompanied by a written collateral management or custodial agreement

between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the loan collateral must be held by the third party custodian and if the loan collateral is made up of securities there must be no right for the agent to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the agent and the loan collateral will be liquidated and the resulting proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the agent to the *Dealer Member*.

(iii) Agency securities borrow arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency *securities borrow arrangement* to the underlying principal lender and the agency *securities borrow arrangement* must be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the underlying principal lender:

(a) where an agent is also the third party custodian and the requirements in note 7(i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in note 7(ii) are not all met.

(iv) Margin requirements for securities borrow arrangements

The margin requirements for a *securities borrow arrangement* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

(I) for principal *securities borrow arrangements*, the counterparty is the principal in the *securities borrow arrangement*,

(II) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,

(III) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal lender,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	**Margin required**
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(c) Where the *Dealer Member* borrows fully paid or excess margin securities from a client pursuant to Part B.2 of 4600, the margin required is equal to the excess of the collateral required under subsection 4624(3) over the *market value* of the actual collateral segregated for the client in compliance with subsection 4624(5).

(8) **Securities resale arrangements**

(i) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities resale arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal seller) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:

(I) the cash proceeds from the purchased securities must be held by the third party custodian agent,

(II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:

(A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or

(B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are the different entities

Any written agreement for a securities resale arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal seller), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the cash proceeds from the purchased securities must be held by the agent,

(II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:

(A) the *Dealer Member* separately from the third party custodian and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or

(B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.

(iii) Agency securities resale arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities resale arrangement to the underlying principal seller and the agency securities resale arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the underlying principal seller:

(a) where an agent is also the third party custodian and the requirements in note 8(i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in note 8(ii) are not all met.

(iv) Margin requirements for securities resale arrangements

The margin requirements for a securities resale arrangement are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	**Margin required based on term of transaction**	
	30 calendar days or less after regular settlement[1]	**Greater than 30 calendar days after regular settlement**[1]
Acceptable institution	No margin[2]	
Acceptable counterparty	*Market value* deficiency[2]	Margin
Regulated entity	*Market value* deficiency[2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.

[2] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

(I) for principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,

(II) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are met, the counterparty is the agent,

(III) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are not met, the counterparty is the underlying principal seller,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	*Market value* deficiency[1]
Regulated entity	*Market value* deficiency[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

(10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

(11) **Lines 2, 3, 6 and 7 -** In the case of a *cash loan receivable* or a *securities borrow arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(12) **Lines 10 and 11 -** In the case of a resale transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities resold and the *market value* of the cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(13) **Lines 4, 8 and 12 -** In the case of a *cash loan receivable* or a securities borrowing (excluding borrowing arrangements for client fully paid and excess margin securities) or a resale arrangement/transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty*, or *regulated entity* where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(14) **Line 8 -** In the case of securities borrowing arrangements for client fully paid and excess margin securities where a deficiency exists as calculated under Note 7(iv)(c), action must be taken to correct the deficiency. If no action is taken the amount of deficiency must

be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(15) **Lines 5, 6 and 7 -** In a securities borrowed transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.

(16) **Lines 4, 8 and 12 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(i) and (ii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

Form 1, Part II – Schedule 4
Notes and instructions

(1) A *Dealer Member* must obtain from and maintain for each of its clients, minimum margin in the amount and manner prescribed by the *Corporation*.

(2) **Lines 1 to 4** - Balances reported on these lines should include:

(i) *extended settlement date* transactions, and

(ii) cash collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed client fully paid or excess margin securities.

The margin related to extended settlements should be calculated as described in note 12 and reported on Line 5.

(3) **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* in the case of either *regular* or *extended settlement date* transactions except

(i) any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date,

(ii) futures positions, which are margined as prescribed in subsections 5790 (1) and (2).

This line is to include all trading balances with *acceptable institutions* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

(4) **Line 2** - In the case of a *regular settlement date* transaction in the account of an *acceptable counterparty*, other than futures positions, which are margined as prescribed in subsections 5790 (1) and (2), the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency calculated by determining the difference between (i) the net *market value* of all settlement date security positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).

Any transaction, which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade date, shall be margined.

This line is to include all trading balances with *acceptable counterparties* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

(5) **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:

(i) Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required securities, as the case may be.

(ii) Payment by a customer in respect of any margin account transaction may be by:

(a) cash or other immediately available funds,

(b) applying the loan value of securities to be deposited,

(c) applying the excess loan value in the account or in a guarantor's account.

(iii) Each margin account of a customer, which has become undermargined, shall within 20 *business days* of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.

(iv) Advancing funds or delivering securities from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.

(v) Where the *Dealer Member* borrows excess margin securities from the client's margin account, the collateral provided to the client cannot be used to reduce any margin required in the account.

(6) **Line 3(a)** - In the case of a *regular settlement date* transaction in the margin account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution*, the amount of margin to be provided, commencing on *regular settlement date*, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

Trade date margining: For *Dealer Members* determining margin deficiencies for clients on a trade date basis, (i) any amount of margin required to be provided under this subsection shall be determined using money balances and security positions as of trade date, and (ii) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.

(7) **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:

(i) Cash accounts

Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should

be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in note 8.

(ii) Delivery against payment (DAP)

Settlement of a purchase transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for delivery by the *Dealer Member* against payment in full by the customer shall be settled on the later of (a) settlement date or (b) the date on which the *Dealer Member* gives notice to the customer that the securities purchased are available for delivery.

(iii) Receipt against payment (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for receipt of securities by the *Dealer Member* against payment to the customer shall be settled on the settlement date.

(iv) Payment

Payment by a customer in respect of any cash account transaction may be by:

(a) cash or other immediately available funds;

(b) the application of the proceeds of the sale of the same or other securities held long in any cash account of the customer with the *Dealer Member* provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;

(c) the transfer of funds from a margin account of the customer with the *Dealer Member* provided adequate margin is maintained in such account immediately before and after the transfer.

(v) Isolated transactions

A customer shall be permitted in an isolated instance to:

(a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same security in any cash account of the customer with the *Dealer Member*;

(b) transfer a transaction in a cash account to a margin account prior to payment in full; or

(c) transfer a transaction in a DAP account to a margin account within 10 *business days* after settlement date.

(vi) Account restrictions

(a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 *business days* or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the *Dealer Member*, unless and until (I) payment of any such money balance outstanding for 20 *business days* or more shall have been made, (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii), or (III) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 *business days* or more after settlement date.

(b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 *business days* or more (or, in the case of transactions of customers situated other than in continental North America, 15 *business days*) from the date on which the transaction is required to be settled in accordance with note 7(ii) the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the *Dealer Member*, unless and until (I) such transaction has been settled in full, or (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii).

(vii) Transfer to margin account

The account restrictions in note 7(vi)(a) and (b) shall not apply to the accounts of a customer who (a) do not have a margin account with the *Dealer Member*, and (b) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the *Dealer Member* to one or more newly established margin accounts of

the customer with the *Dealer Member*, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

(viii) Acceptable institutions and other

Note 7(vi) does not apply to the accounts of *acceptable institutions*, *acceptable counterparties*, non-*Dealer Member* brokers, or *regulated entities*.

(8) **Line 3(b)** - Margin must be provided as follows:

(i) Cash accounts

(a) When any portion of the money balance in a cash account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 6 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date security positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

(I) Securities that currently have a margin rate of 60% or less, are weighted at 1.000

(II) Listed securities with a margin rate greater than 60% are weighted as 0.333

(III) Nasdaq National Market® and Nasdaq SmallCap Market℠ securities with a margin rate of more than 60% are weighted as 0.333

(IV) All other unlisted securities with a margin rate of more than 60% are weighted as 0.000.

(b) Commencing on 6 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;

(c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

(d) Where the *Dealer Member* borrows fully paid securities from the client's cash account, the collateral provided to the client cannot be used to reduce any margin required on the account.

(ii) DAP and RAP accounts

(a) When any portion of the money balance in a DAP account or RAP account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 10 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date security positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).

(b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.

(c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;

(d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

(iii) Confirmations and commitment letters

The margin requirements outlined in the previous paragraphs of note 8 do not apply if a customer has provided the *Dealer Member* on or before settlement date with an irrevocable and unconditional confirmation from an *acceptable clearing corporation* or letter of commitment from an *acceptable institution* to the effect that such corporation or institution will accept delivery from the *Dealer Member* and pay for the securities to be delivered, and in such event settlement shall be considered provided for by the customer.

(iv) Trade date margining

For *Dealer Members* determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date security positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on *regular settlement date*, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of note 8.

(9) Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to Form 1.

(10) **Line 3(c) -** The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short security positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.

(11) **Line 4** – This line is to include balances for client accounts containing positions and offsets in *futures contracts* or *futures contract options*. These accounts should be margined in accordance with subsection 5790(1). Where a margin deficiency exists in a futures account of an *acceptable counterparty* or an *acceptable institution*, the margin deficiency should be reported on this line in accordance with subsection 5790(2).

Excess margin in a client account subject to a *futures segregation and portability customer protection regime* may not be used to reduce margin requirements in the client's account that is not subject to *futures segregation and portability customer protection regime* and vice versa.

Free credit balances should be included on Line 5.

(12) **Line 5 -** Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between a *Dealer Member* and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see note 3) or *regulated entity* (see Schedule 5)), the position shall be margined as follows, commencing on *regular settlement date*:

Calendar days after regular settlement [1]		
Counterparty	**30 days or less**	**Greater than 30 days**
Acceptable counterparty	Market value deficiency [2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] Calendar days refers to the original term of the extended settlement transaction.

[2] Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade shall be margined.

(13) **Line 6** - *Free credit balances* in all accounts except RRSP and other similar accounts should be included. *Dealer Members* margining on a trade date basis will generally calculate *free credit balances* on a trade date basis and should report this trade date figure on Line 6. However, for those *Dealer Members* margining on a settlement date basis, their *free credit balances* will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 6. Note that a consistent basis of calculating *free credit balances* must be used from month to month.

(14) **Line 6(a)** - For those *Dealer Members* reporting *free credit balances* on a settlement date basis on Line 6, report the *free credit balances* arising as a result of pending trades on this line.

(15) **Line 8** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 9 are shown "net".

(16) **Line 10(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Dealer Member* and the IA permitting the *Dealer Member* to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from *guarantees* relating to customers' accounts by Partners, *Directors*, and *Officers* of the *Dealer Member* (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the *Dealer Member*.

Form 1, Part II – Schedule 7
Notes and instructions

(1) This schedule is to be completed for loan payable transactions, where the stated purpose of the transaction is to borrow cash. All security lending transactions and financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.

(2) For the purpose of this schedule, the following terms have the meanings set out below:

"cash loan payable"	A loan transaction where the purpose of the loan is for the *Dealer Member* to borrow cash and deliver securities as collateral to the counterparty.
"excess collateral deficiency"	(i) For a *cash loan payable*, any excess of the *market value* of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan, or (ii) For a *securities loan arrangement*, any excess of the *market value* of the securities loaned over the *market value* of securities or the amount of cash received from the transaction counterparty as collateral.
"securities loan arrangement"	A loan transaction where the purpose of the loan is for the *Dealer Member* to lend securities and receive cash or securities as collateral from the counterparty.

(3) Include accrued interest in amount of loan payable.

(4) *Market value* of securities received or delivered as collateral should include accrued interest.

(5) **Written agreement requirements**

Any written agreement for a *cash loan payable*, *securities loan arrangement* or securities repurchase arrangement must:

(i) set out the rights of each party to retain and realize on the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the loaned or transferred asset value or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the difference between the collateral and the securities, and

(v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (v)(b) above, the written agreement must provide for the securities loaned in the case of a *securities loan arrangement*, or the securities sold in the case of a repurchase arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) **Cash loan payable**

(i) Margin requirements

The margin requirements for a *cash loan payable* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) **Securities loan arrangements**

(i) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the loaned securities must be held by the third party custodian agent and there must be no right to re-hypothecate the loaned securities,

(II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:

(A) the *Dealer Member* separately from the third party custodian agent and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or

(B) the third party custodian agent in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal borrower default, the loan collateral will be liquidated by the *Dealer Member* and proceeds used to purchase the loaned securities. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the loaned securities must be held by the agent and there must be no right for the agent to re-hypothecate the loaned securities,

(II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:

(A) the *Dealer Member* separately from the third party custodian and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or

(B) the third party custodian in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal borrower default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the loan collateral will be liquidated by the *Dealer Member* and the resulting proceeds used to purchase the loaned securities by the *Dealer Member*. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by the *Dealer Member* to the agent.

(iii) Agency securities loan arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency *securities loan arrangement* to the underlying principal borrower and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities lending arrangement between the *Dealer Member* and the underlying principal borrower:

(a) where an agent is also the third party custodian and the requirements in 7(i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in 7(ii) are not all met.

(iv) Margin requirements for securities loan arrangements

The margin requirements for a *securities loan arrangement* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the securities loaned to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

(I) for principal *securities loan arrangements*, the counterparty is the principal in the *securities loan arrangement*,

(II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,

(II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal borrower,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	**Margin required**
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(8) **Securities repurchase arrangements**

(i) Additional written agreement requirements for certain agency securities repurchase arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities repurchase arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal buyer) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:

(I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian agent and there must be no right to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to satisfy the *Dealer Member*'s obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

(ii) Additional written agreement requirements for certain agency repurchase agreements where agent may be treated as equivalent to principal in which an agent and third party custodian are different entities

Any written agreement for a securities repurchase arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal buyer), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member*'s obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

(iii) Agency securities repurchase arrangement where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities repurchase arrangement to the underlying principal buyer and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the underlying principal buyer:

(a) where an agent is also the third party custodian and the requirements in note 8(i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in note 8(ii) are not all met.

(iv) Margin requirements for securities repurchase arrangements

The margin requirements for a securities repurchase arrangement are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

	Margin required based on term of transaction	
Transaction counterparty type	**30 calendar days or less after regular settlement**[1]	**Greater than calendar 30 days after regular settlement**[1]
Acceptable institution	No margin[2]	
Acceptable counterparty	*Market value* deficiency[2]	Margin
Regulated entity	*Market value* deficiency[2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.

[2] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

(I) for principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,

(II) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are met, the counterparty is the agent,

(III) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(i) or (ii) are not met, the counterparty is the underlying principal buyer,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	**Margin required**
Acceptable institution	No margin[1]
Acceptable counterparty	*Market value* deficiency[1]
Regulated entity	*Market value* deficiency[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

(10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions of Form 1, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

(11) **Lines 3, 4, 7 and 8 -** In the case of a *cash loan payable* or a *securities loan arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day* it must be provided out of the *Dealer Member's* capital.

(12) **Lines 11 and 12 -** In the case of a repurchase transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities repurchased and the *market value* of the cash

received, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(13) **Lines 5, 9 and 13 -** In the case of a *cash loan payable* or a securities loan or a repurchase arrangement / transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(14) **Lines 2, 3 and 4 -** In a *cash loan payable* transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash loan, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.

(15) **Lines 5, 9, and 13 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(i) and (ii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

Form 1, Part II – Schedule 10
Notes and instructions

(1) *Dealer Members* must have and maintain insurance against the types of loss and with at least the minimum amount of coverage as prescribed in the *Corporation requirements* and the rules of the Investor Protection Fund.

(2) Schedule 10 must be completed at the audit date and monthly as part of the monthly financial report.

(3) The following term(s) has the meaning set out when used in this schedule:

"Other acceptable property"	London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in section 5430.

(4) Net equity for each client is the total value of cash, securities, and *other acceptable property* owed to the client by the *Dealer Member* less the value of cash, securities, and *other acceptable property* owed by the client to the *Dealer Member*. In determining net equity, accounts of a client such as cash, margin, short sale, *options*, *futures contracts*, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, joint accounts are not combined with other accounts and are treated as separate accounts.

Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. Schedule 10 Part A, Line 1(a) is the aggregate net equity for each client. Negative client net equity, (i.e. total deficiency in net equity owed to the *Dealer Member* by the client) is not included in the aggregate.

For Schedule 10, the following should not be considered in the calculation of net equity:

(i) *guarantee*/guarantor agreements, and
(ii) collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed the client's fully paid or excess margin securities.

The client net equity calculation should include all retail and *institutional client* accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, *affiliates* and other similar accounts.

(5) A *Dealer Member* must have and maintain insurance against losses, using a Financial Institution Bond with a discovery rider attached or discovery provisions incorporated in the Financial Institution Bond. A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

For Financial Institution Bonds containing an "aggregate limit" coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.

(6) The Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) document in Form 1 contains a question pertaining to the adequacy of insurance coverage. The Auditors' Report requires the auditor to state that the question has been fairly answered. Refer to subsection 4461(1) if the *Dealer Member* has insufficient insurance coverage.

(7) A Financial Institution Bond maintained pursuant to the rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the *Dealer Member's* margin requirement is increased by the amount of the deductible.

(8) Unless specifically exempted within the *Corporation requirements*, every *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail.

(9) The aggregate value of securities in transit in the custody of any *employee* or any *person* acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 10, Line 2).

(10) List all Financial Institution Bond and registered mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.

(11) List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the "Amount of loss" column if the amount of the loss is estimated or unknown as at the reporting date.

Losses should continue to be reported on Part D of Schedule 10 until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

Appendix E – Blackline comparison of the Proposed Amendments to current provisions

Form 1, Part I – Statement D
Notes and instructions

(1) 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.

(2) **Section A, Lines 2 and 3 -** *Free credit balances* in RRSP and other similar accounts should not be included. Refer to the notes and instructions to Schedule 4 for discussion of trade versus settlement date reporting of *free credit balances*. Where the *Dealer Member* has borrowed the client's fully paid or excess margin securities and cash collateral is provided to the client by the *Dealer Member*, the cash collateral should not be included in *free credit balances*.

For purposes of this statement, a free credit is:

(i) ~~(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.

(ii) ~~(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.

(3) **Section A, Line 5 -** If nil, no further calculation on this Statement need be done.

(4) **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.

(5) **Section D, Line 1 -** The cash must be segregated in trust for clients in a separate account or accounts with an *acceptable institution* and this trust property must be clearly identified as such at the *acceptable institution*.

This calculation should exclude funds held in trust for RRSP and other similar accounts.

(6) **Section D, Line 2 -** The following securities are eligible for client free credit *segregation* purposes, provided they are segregated and held separate and apart from the *Dealer Member's* property:

Securities eligible for client free credit segregation purposes			
Category		**Minimum designated rating organization current credit rating**	**Qualification(s)**
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following: (i) national governments of Canada, United Kingdom, and United States, or (ii) Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government of a *Basel Accord country*
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No *designated rating organization* has a lower current credit rating Must be issued by a Canadian *chartered bank*

			Securities issued by a *provider of capital*, as defined in the notes and instructions to Schedule 14 are not eligible

(7) **Section D, Line 4 -** If negative, then a *segregation* deficiency exists, and the *Dealer Member* must 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 and the date of correction.

Form 1, Part II – Schedule 1
Notes and instructions

(1) This schedule is to be completed for secured loan receivable transactions where the stated purpose of the transaction is to lend excess cash. All security borrowing and financing transactions done via 2 trade tickets, including resale transactions and those with related parties, should also be disclosed on this schedule.

(2) For the purpose of this schedule, the following terms have the meanings set out below:

"cash loan receivable"	A loan transaction where the purpose of the loan is for the *Dealer Member* to lend cash and receive securities as collateral from the counterparty.
"excess collateral deficiency"	(i) For a *cash loan receivable*, any excess of the amount of the loan over the *market value* of the actual collateral received from the transaction counterparty, or (ii) For a *securities borrow arrangement*, any excess of the *market value* of the actual collateral provided to the transaction counterparty over: (a) 102% of the *market value* of the securities borrowed, where cash is provided as collateral, or (b) 105% of the *market value* of the securities borrowed, where securities are provided as collateral.
"securities borrow arrangement"	A loan transaction where the purpose of the loan is for the *Dealer Member* to borrow securities and deliver cash or securities as collateral to the counterparty.

(3) Include accrued interest in amount of loan receivable.

(4) *Market value* of securities delivered or received as collateral should include accrued interest.

(5) **Written agreement requirements**

Any written agreement for a *cash loan receivable*, *securities borrow arrangement* or securities resale arrangement must:

(i) set out the rights of each party to retain and realize on ~~securities~~the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the ~~securities or~~loaned or transferred asset value or the collateral value, held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and

(~~iv~~v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (~~iv~~v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (~~iv~~v)(b) above, the written agreement must provide for the securities borrowed in the case of a *securities loan arrangement*, or the securities purchased ~~under~~in the case of a resale arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) **Cash loan receivable**

(i) Margin requirements

The margin requirements for a *cash loan receivable* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) **Securities borrow arrangements**

(i) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:

(I) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the *Dealer Member*.

(ii) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the loan collateral must be held by the third party custodian and if the loan collateral is made up of securities there must be no right for the agent to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the

agent and the loan collateral will be liquidated and the resulting proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the agent to the *Dealer Member*.

(iii) Agency securities borrow arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency *securities borrow arrangement* to the underlying principal lender and the agency *securities borrow arrangement* must be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the underlying principal lender:

(a) where an agent is also the third party custodian and the requirements in note 7(i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in note 7(ii) are not all met.

(iv) Margin requirements for securities borrow arrangements

The margin requirements for a *securities borrow arrangement* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

(I) for principal *securities borrow arrangements*, the counterparty is the principal in the *securities borrow arrangement*,

(II) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,

(III) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal lender,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(c) Where the *Dealer Member* borrows fully paid or excess margin securities from a client pursuant to Part B.2 of 4600, the margin required is equal to the excess of the collateral required under subsection 4624(3) over the *market value* of the actual collateral segregated for the client in compliance with subsection 4624(5).

(8) **Securities resale arrangements**

(i) Written agreement requirements

If a *Dealer Member* has a written agreement for a securities resale arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.

(ii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a securities resale arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal seller) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in notesnote 5 and 8(i)) are stipulated in the written agreement:

(I) the cash proceeds from the purchased securities must be held by the third party custodian agent,

(II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:

(A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or

(B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.

(iiiii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are the different entities

Any written agreement for a securities resale arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal seller), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in notesnote 5 and 8(i)) are stipulated in the written agreements:

(I) the cash proceeds from the purchased securities must be held by the agent,

(II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:

(A) the *Dealer Member* separately from the third party custodian and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or

(B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller's obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.

(~~iv~~iii) Agency securities resale arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities resale arrangement to the underlying principal seller and the agency securities resale arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the underlying principal seller:

(a) where an agent is also the third party custodian and the requirements in note 8(~~ii~~i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in note 8(~~iii~~ii) are not all met.

(~~v~~iv) Margin requirements for securities resale arrangements

The margin requirements for a securities resale arrangement are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in ~~notes~~note 5~~ and 8(i)~~, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement[1]	**Greater than 30 calendar days after regular settlement**[1]
Acceptable institution	No margin[2]	
Acceptable counterparty	*Market value* deficiency[2]	Margin
Regulated entity	*Market value* deficiency[2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.

[2] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in ~~notes~~note 5~~ and 8(i)~~, for margin purposes:

(I) for principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,

(II) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(~~ii~~i) or (~~iii~~ii) are met, the counterparty is the agent,

(III) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(~~ii~~i) or (~~iii~~ii) are not met, the counterparty is the underlying principal seller,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	*Market value* deficiency[1]
Regulated entity	*Market value* deficiency[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

(10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

(11) **Lines 2, 3, 6 and 7 -** In the case of a *cash loan receivable* or a *securities borrow arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(12) **Lines 10 and 11 -** In the case of a resale transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities resold and the *market value* of the cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(13) **Lines 4, 8 and 12 -** In the case of a *cash loan receivable* or a securities borrowing (excluding borrowing arrangements for client fully paid and excess margin securities) or a resale arrangement/transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(14) **Line 8 -** In the case of securities borrowing arrangements for client fully paid and excess margin securities where a deficiency exists as calculated under Note 7(iv)(c), action must be taken to correct the deficiency. If no action is taken, the amount of deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(15) **Lines 5, 6 and 7 -** In a securities borrowed transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.

(~~15~~16) **Lines 4, 8 and 12 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(~~ii~~i) and (~~iii~~ii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

Form 1, Part II – Schedule 4
Notes and instructions

(1) A *Dealer Member* must obtain from and maintain for each of its clients, minimum margin in the amount and manner prescribed by the *Corporation*.

(2) **Lines 1 to 4** - Balances ~~including *extended settlement date* transactions should be~~ reported on these lines~~. However, the~~ should include:

(i) *extended settlement date* transactions, and

(ii) cash collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed client fully paid or excess margin securities.

The margin related to ~~such~~ extended settlements should be calculated as described in note 12 and reported on Line 5.

(3) **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* in the case of either *regular* or *extended settlement date* transactions except

(i) any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date,

(ii) futures positions, which are margined as prescribed in subsections 5790 (1) and (2).

This line is to include all trading balances with *acceptable institutions* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

(4) **Line 2** - In the case of a *regular settlement date* transaction in the account of an *acceptable counterparty*, other than futures positions, which are margined as prescribed in subsections 5790 (1) and (2), the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency calculated by determining the difference between (i) the net *market value* of all settlement date security positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).

Any transaction, which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade date, shall be margined.

This line is to include all trading balances with *acceptable counterparties* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

(5) **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:

(i) Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required securities, as the case may be.

(ii) Payment by a customer in respect of any margin account transaction may be by:

(a) cash or other immediately available funds,

(b) applying the loan value of securities to be deposited,

(c) applying the excess loan value in the account or in a guarantor's account.

(iii) Each margin account of a customer, which has become undermargined, shall within 20 *business days* of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.

(iv) Advancing funds or delivering securities from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.

(v) Where the *Dealer Member* borrows excess margin securities from the client's margin account, the collateral provided to the client cannot be used to reduce any margin required in the account.

(6) **Line 3(a)** - In the case of a *regular settlement date* transaction in the margin account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution*, the amount of margin to be provided, commencing on *regular settlement date*, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

Trade date margining: For *Dealer Members* determining margin deficiencies for clients on a trade date basis, (i) any amount of margin required to be provided under this subsection shall be determined using money balances and security positions as of trade date, and (ii) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.

(7) **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:

(i) Cash accounts

Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in note 8.

(ii) Delivery against payment (DAP)

Settlement of a purchase transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for delivery by the *Dealer Member* against payment in full by the customer shall be settled on the later of (a) settlement date or (b) the date on which the *Dealer Member* gives notice to the customer that the securities purchased are available for delivery.

(iii) Receipt against payment (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for receipt of securities by the *Dealer Member* against payment to the customer shall be settled on the settlement date.

(iv) Payment

Payment by a customer in respect of any cash account transaction may be by:

(a) cash or other immediately available funds;

(b) the application of the proceeds of the sale of the same or other securities held long in any cash account of the customer with the *Dealer Member* provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;

(c) the transfer of funds from a margin account of the customer with the *Dealer Member* provided adequate margin is maintained in such account immediately before and after the transfer.

(v) Isolated transactions

A customer shall be permitted in an isolated instance to:

(a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same security in any cash account of the customer with the *Dealer Member*;

(b) transfer a transaction in a cash account to a margin account prior to payment in full; or

(c) transfer a transaction in a DAP account to a margin account within 10 *business days* after settlement date.

(vi) Account restrictions

(a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 *business days* or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the *Dealer Member*, unless and until (I) payment of any such money balance outstanding for 20 *business days* or more shall have been made, (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii), or (III) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 *business days* or more after settlement date.

(b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 *business days* or more (or, in the case of transactions of customers situated other than in continental North America, 15 *business days*) from the date on which the transaction is required to be settled in accordance with note 7(ii) the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the *Dealer Member*, unless and until (I) such transaction has been settled in full, or (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii).

(vii) Transfer to margin account

The account restrictions in note 7(vi)(a) and (b) shall not apply to the accounts of a customer who (a) do not have a margin account with the *Dealer Member*, and (b) on or after the accounts becoming so restricted, transfers all open and unsettled

transactions in any cash account of the customer with the *Dealer Member* to one or more newly established margin accounts of the customer with the *Dealer Member*, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

(viii) Acceptable institutions and other

Note 7(vi) does not apply to the accounts of *acceptable institutions*, *acceptable counterparties*, non-*Dealer Member* brokers, or *regulated entities*.

(8) **Line 3(b)** - Margin must be provided as follows:

(i) Cash accounts

(a) When any portion of the money balance in a cash account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 6 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date security positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

(I) Securities that currently have a margin rate of 60% or less, are weighted at 1.000

(II) Listed securities with a margin rate greater than 60% are weighted as 0.333

(III) Nasdaq National Market® and Nasdaq SmallCap Market℠ securities with a margin rate of more than 60% are weighted as 0.333

(IV) All other unlisted securities with a margin rate of more than 60% are weighted as 0.000.

(b) Commencing on 6 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;

(c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

(d) Where the *Dealer Member* borrows fully paid securities from the client's cash account, the collateral provided to the client cannot be used to reduce any margin required on the account.

(ii) DAP and RAP accounts

(a) When any portion of the money balance in a DAP account or RAP account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution* is overdue for a period of less than 10 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date security positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).

(b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.

(c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;

(d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

(iii) Confirmations and commitment letters

The margin requirements outlined in the previous paragraphs of note 8 do not apply if a customer has provided the *Dealer Member* on or before settlement date with an irrevocable and unconditional confirmation from an *acceptable clearing corporation* or letter of commitment from an *acceptable institution* to the effect that such corporation or institution will accept delivery from the *Dealer Member* and pay for the securities to be delivered, and in such event settlement shall be considered

provided for by the customer.

(iv) Trade date margining

For *Dealer Members* determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date security positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on *regular settlement date*, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of note 8.

(9) Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to Form 1.

(10) **Line 3(c) -** The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short security positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.

(11) **Line 4** – This line is to include balances for client accounts containing positions and offsets in *futures contracts* or *futures contract options*. These accounts should be margined in accordance with subsection 5790(1). Where a margin deficiency exists in a futures account of an *acceptable counterparty* or an *acceptable institution*, the margin deficiency should be reported on this line in accordance with subsection 5790(2).

Excess margin in a client account subject to a *futures segregation and portability customer protection regime* may not be used to reduce margin requirements in the client's account that is not subject to *futures segregation and portability customer protection regime* and vice versa.

Free credit balances should be included on Line 5.

(12) **Line 5 -** Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between a *Dealer Member* and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see note 3) or *regulated entity* (see Schedule 5)), the position shall be margined as follows, commencing on *regular settlement date*:

Calendar days after regular settlement [1]		
Counterparty	**30 days or less**	**Greater than 30 days**
Acceptable counterparty	Market value deficiency [2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] Calendar days refers to the original term of the extended settlement transaction.

[2] Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade shall be margined.

(13) **Line 6** - *Free credit balances* in all accounts except RRSP and other similar accounts should be included. *Dealer Members* margining on a trade date basis will generally calculate *free credit balances* on a trade date basis and should report this trade date figure on Line 6. However, for those *Dealer Members* margining on a settlement date basis, their *free credit balances* will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 6. Note that a consistent basis of calculating *free credit balances* must be used from month to month.

(14) **Line 6(a)** - For those *Dealer Members* reporting *free credit balances* on a settlement date basis on Line 6, report the *free credit balances* arising as a result of pending trades on this line.

(15) **Line 8** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 9 are shown "net".

(16) **Line 10(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Dealer Member* and the IA permitting the *Dealer Member* to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from *guarantees* relating to customers' accounts by Partners, *Directors*, and *Officers* of the *Dealer Member* (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the *Dealer Member*.

Form 1, Part II – Schedule 7

Notes and instructions

(1) This schedule is to be completed for loan payable transactions, where the stated purpose of the transaction is to borrow cash. All security lending transactions and financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.

(2) For the purpose of this schedule, the following terms have the meanings set out below:

"cash loan payable"	A loan transaction where the purpose of the loan is for the *Dealer Member* to borrow cash and deliver securities as collateral to the counterparty.
"excess collateral deficiency"	(i) For a *cash loan payable*, any excess of the *market value* of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan, or (ii) For a *securities loan arrangement*, any excess of the *market value* of the securities loaned over the *market value* of securities or the amount of cash received from the transaction counterparty as collateral.
"securities loan arrangement"	A loan transaction where the purpose of the loan is for the *Dealer Member* to lend securities and receive cash or securities as collateral from the counterparty.

(3) Include accrued interest in amount of loan payable.

(4) *Market value* of securities received or delivered as collateral should include accrued interest.

(5) **Written agreement requirements**

Any written agreement for a *cash loan payable*, *securities loan arrangement* or securities repurchase arrangement must:

(i) set out the rights of each party to retain and realize on ~~securities~~the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,

(ii) set out events of default,

(iii) provide for treatment of the ~~securities~~loaned or transferred asset value or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party,

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the difference between the collateral and the securities, and

(~~iv~~v) either:

(a) give the parties the right to set off their mutual debts, or

(b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (~~iv~~v)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (~~iv~~v)(b) above, the written agreement must provide for the securities loaned in the case of a *securities loan arrangement*, or the securities sold ~~under~~in the case of a repurchase arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) **Cash loan payable**

(i) Margin requirements

The margin requirements for a *cash loan payable* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(7) **Securities loan arrangements**

(i) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the loaned securities must be held by the third party custodian agent and there must be no right to re-hypothecate the loaned securities,

(II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:

- the *Dealer Member* separately from the third party custodian agent and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
- the third party custodian agent in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal borrower default, the loan collateral will be liquidated by the *Dealer Member* and proceeds used to purchase the loaned securities. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are different entities

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:

(I) the loaned securities must be held by the agent and there must be no right for the agent to re-hypothecate the loaned securities,

(II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:

(A) the *Dealer Member* separately from the third party custodian and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or

(B) the third party custodian in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and

(III) in the event of the underlying principal borrower default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the loan collateral will be liquidated by the *Dealer Member* and the resulting proceeds used to purchase the loaned securities by the *Dealer Member*. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by the *Dealer Member* to the agent.

(iii) Agency securities loan arrangements where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency *securities loan arrangement* to the underlying principal borrower and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities lending arrangement between the *Dealer Member* and the underlying principal borrower:

(a) where an agent is also the third party custodian and the requirements in 7(i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in 7(ii) are not all met.

(iv) Margin requirements for securities loan arrangements

The margin requirements for a *securities loan arrangement* are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:

(I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(II) 100% of the *market value* of the securities loaned to the transaction counterparty.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:

(I) for principal *securities loan arrangements*, the counterparty is the principal in the *securities loan arrangement*,

(II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,

(II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal borrower,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	**Margin required**
Acceptable institution	No margin[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(8) **Securities repurchase arrangements**

~~(i) **Written agreement requirements**~~

~~If a *Dealer Member* has a written agreement for a securities repurchase arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.~~

~~(ii)~~ (i) **Additional written agreement requirements for certain agency securities repurchase arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian**

Any written agreement for a securities repurchase arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal buyer) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the third party custodian agent, if:

(a) the third party custodian agent meets the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in ~~notes~~note 5 ~~and 8(i)~~) are stipulated in the written agreement:

(I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian agent and there must be no right to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to satisfy the *Dealer Member*'s obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

~~(iii)~~ (ii) **Additional written agreement requirements for certain agency repurchase agreements where agent may be treated as equivalent to principal in which an agent and third party custodian are different entities**

Any written agreement for a securities repurchase arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal buyer), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the agent, if:

(a) the third party custodian and agent meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

(b) all of the following additional terms (i.e. over and above those set out in ~~notes~~note 5 ~~and 8(i)~~) are stipulated in the written agreements:

(I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and

(II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member*'s obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

~~(iv)~~ (iii) Agency securities repurchase arrangement where agent must not be treated as equivalent to principal

The *Dealer Member* must look through the agent in the agency securities repurchase arrangement to the underlying principal buyer and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the underlying principal buyer:

(a) where an agent is also the third party custodian and the requirements in note 8(~~ii~~i) are not all met, or

(b) where an agent and third party custodian are different entities and the requirements in ~~(iii~~note 8(ii) are not all met.

~~(v)~~ (iv) Margin requirements for securities repurchase arrangements

The margin requirements for a securities repurchase arrangement are as follows:

(a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in ~~notes~~note 5~~ and 8(i)~~, the margin required to be provided shall be determined according to the following table:

	Margin required based on term of transaction	
Transaction counterparty type	**30 calendar days or less after regular settlement**[1]	**Greater than calendar 30 days after regular settlement**[1]
Acceptable institution	No margin[2]	
Acceptable counterparty	*Market value* deficiency[2]	Margin
Regulated entity	*Market value* deficiency[2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.

[2] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(b) Where a written agreement has been entered into that includes all of the required minimum terms in ~~notes~~note 5~~ and 8(i)~~, for margin purposes:

(I) for principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,

(II) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(~~ii~~i) or (~~iii~~ii) are met, the counterparty is the agent,

(III) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable note 8(~~ii~~i) or (~~iii~~ii) are not met, the counterparty is the underlying principal buyer,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	**Margin required**
Acceptable institution	No margin[1]
Acceptable counterparty	*Market value* deficiency[1]
Regulated entity	*Market value* deficiency[1]
Other	Margin

[1] Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

(9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the

balances may also be offset for margin calculation purposes.

(10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions of Form 1, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

(11) **Lines 3, 4, 7 and 8 -** In the case of a *cash loan payable* or a *securities loan arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day* it must be provided out of the *Dealer Member's* capital.

(12) **Lines 11 and 12 -** In the case of a repurchase transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities repurchased and the *market value* of the cash received, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(13) **Lines 5, 9 and 13 -** In the case of a *cash loan payable* or a securities loan or a repurchase arrangement / transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.

(14) **Lines 2, 3 and 4 -** In a *cash loan payable* transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash loan, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.

(15) **Lines 5, 9, and 13 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(~~ii~~i) and (~~iii~~ii) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

Form 1, Part II – Schedule 10

Notes and instructions

(1) *Dealer Members* must have and maintain insurance against the types of loss and with at least the minimum amount of coverage as prescribed in the *Corporation requirements* and the rules of the Investor Protection Fund.

(2) Schedule 10 must be completed at the audit date and monthly as part of the monthly financial report.

(3) The following term(s) has the meaning set out when used in this schedule:

"Other acceptable property"	London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in section 5430.

(4) Net equity for each client is the total value of cash, securities, and *other acceptable property* owed to the client by the *Dealer Member* less the value of cash, securities, and *other acceptable property* owed by the client to the *Dealer Member*. In determining net equity, accounts of a client such as cash, margin, short sale, *options*, *futures contracts*, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, joint accounts are not combined with other accounts and are treated as separate accounts.

Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. Schedule 10 Part A, Line 1(a) is the aggregate net equity for each client. Negative client net equity, (i.e. total deficiency in net equity owed to the *Dealer Member* by the client) is not included in the aggregate.

For Schedule 10, ~~*guarantee*/guarantor agreements~~the following should not be considered in the calculation of net equity:

(i) *guarantee*/guarantor agreements, and
(ii) collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed the client's fully paid or excess margin securities.

The client net equity calculation should include all retail and *institutional client* accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, *affiliates* and other similar accounts.

(5) A *Dealer Member* must have and maintain insurance against losses, using a Financial Institution Bond with a discovery rider attached or discovery provisions incorporated in the Financial Institution Bond. A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.

For Financial Institution Bonds containing an "aggregate limit" coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.

(6) The Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) document in Form 1 contains a question pertaining to the adequacy of insurance coverage. The Auditors' Report requires the auditor to state that the question has been fairly answered. Refer to subsection 4461(1) if the *Dealer Member* has insufficient insurance coverage.

(7) A Financial Institution Bond maintained pursuant to the rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the *Dealer Member's* margin requirement is increased by the amount of the deductible.

(8) Unless specifically exempted within the *Corporation requirements*, every *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail.

(9) The aggregate value of securities in transit in the custody of any *employee* or any *person* acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 10, Line 2).

(10) List all Financial Institution Bond and registered mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.

(11) List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the "Amount of loss" column if the amount of the loss is estimated or unknown as at the reporting date.

Losses should continue to be reported on Part D of Schedule 10 until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

Appendix F – Revised guidance (Clean copy)

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Rules Bulletin > Guidance Note

Contact:
Member Regulation Policy
e-mail: memberpolicymailbox@ciro.ca

Distribute internally to:
Credit, Institutional, Internal Audit, Legal and Compliance, Operations, Regulatory Accounting, Research, Retail, Senior Management, Training

Rule Connection: IDPC Rules
Division: Investment Dealer

Guidance on fully paid securities lending

Executive Summary

The Canadian Investment Regulatory Organization (**CIRO**) is publishing guidance regarding Dealer Members' practice of borrowing fully paid and excess margin securities[1] from their retail clients and compliance with Part B.2. of Rule 4600 of the Investment Dealer and Partially Consolidated (**IDPC)** Rules.

Part B.2. of Rule 4600 does not apply to institutional client securities lending, including institutional client fully paid lending, which is governed under the traditional lending requirements of Rule 4600.[2] Should the institutional client choose to be treated as a retail client for the purpose of their fully paid lending arrangement with the Dealer Member (**Dealer**), such arrangement is subject to the application of Part B.2. of Rule 4600 and the expectations of this guidance.[3]

In this guidance, all rule references are to the IDPC Rules unless otherwise specified.

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[1] Across this guidance we refer to this practice as simply 'fully paid lending'.
[2] Part A and Part B.1. of Rule 4600.
[3] Section 4620.

Table of Contents

1. Fully paid securities lending overview

1.1 Fully paid lending

Fully paid securities lending refers to the Dealer Member (**Dealer**) practice of borrowing client's fully paid or excess margin securities.

1.2 Benefits of fully paid lending

Securities lending is a common market practice in Canada. Dealers with self-clearing operations generally have securities lending desks that, among other things, earn revenue by lending securities (that they own and/or hold for clients on margin) to institutions such as hedge funds, financial institutions and other broker-dealers (**street borrowers**).

In addition, Dealers borrow their client's fully paid securities or excess margin securities, to meet their in-house demand or the street borrower's demand. The clients earn passive income on the loaned assets as a result.

Securities lending is beneficial to the market because it unlocks securities for which there is demand, for instance to:

- facilitate trading strategies like short selling,
- meet collateral requirements, and
- fulfill settlement obligations, thereby increasing settlement efficiency.

1.3 Key characteristics of fully paid lending

Dealers hold fully paid and excess margin securities in custody for their own clients, clients of other Dealers (introducing brokers), or clients of portfolio managers. In practice, Dealers generally borrow these securities as part of fully paid lending programs (**FPL programs**), which operate as follows:

- eligible retail clients agree to lend to the Dealer fully paid or excess margin securities[4] held in their securities trading account (cash account or margin account);
- the Dealer, as borrower of these securities, provides collateral to the lending clients; such collateral is held by the Dealer in trust for such clients in a separate account (cash collateral) or at a collateral agent (e.g. securities collateral);
- the Dealer uses the borrowed securities for their own needs or lends the securities to street borrowers in return for collateral.

In fully paid lending, such as for instance FPL programs, the Dealer borrows from their clients as principal, meaning that the Dealer transacts directly with their client as borrower, and then with the street borrower as lender, in two separate transactions. The client and street borrower are unknown to each other and do not have any legal rights or responsibilities to each other with respect to the loan transaction. Street borrowers pay a fee to the lender based on the supply and demand of the securities

[4] From this point on in guidance, we simply use 'securities' to refer to 'fully paid and excess margin securities', unless otherwise specified.

in the lending market. In particular, securities that have limited supply, but substantial demand are considered “hard to borrow” and command higher borrow fees. The Dealer shares the borrow fee with the client, which is deposited in the client’s securities account every month.

While the title and ownership of the loaned securities transfers to the borrower, the lending client remains the beneficial owner of these securities. As a result, the Dealer generates manufactured payments (i.e. in lieu of dividends and distributions) for the securities that are out on loan, which are deposited in the client’s securities account on a normal pay date.

1.4 Risks associated with securities lending

Fully paid lending does not come without risks, especially for the retail client who may not have the same level of sophistication, trading knowledge or tools as institutional lenders. Some of these risks are discussed below.

1.4.1. Market risks

Loaned securities are often in demand by street borrowers to support short sales. Short selling could potentially put downward pressure on the long-term value of the client’s long security position. The likelihood of downward market impact increases for securities that are not widely held nor actively traded.

1.4.2 Loss of voting rights

When the title and ownership of the loaned securities transfers to the borrowing Dealer, client’s voting rights on loaned securities also pass to such Dealer and, if loaned on to street borrowers, pass on to the ultimate borrower. If the client wishes to vote on the securities, they need to request a recall of the securities (i.e. terminate the loan). There is a risk that:

- the Dealer may not get the securities back to the client in time to vote;
- fully paid lending, such as FPL programs, may exacerbate “empty voting”. Empty voting refers to a practice where securities are borrowed in large numbers to effect a vote on a significant transaction or contested proxy battles, which may not be aligned with how the client, who is the beneficial owner, would have voted.

1.4.3 Tax implications

The client may have tax implications associated with:

- the manufactured payments, and
- exercising their right to the collateral.

Since the client remains the beneficial owner of the securities that are out on loan, in order to reflect the client’s entitlement to the economic benefit of their loaned securities, the Dealer makes a “manufactured payment” to the client that mirrors all dividends and distributions on the securities. The client may experience unintended and undesired tax consequences because the manufactured payment may not have the same tax treatment as the dividends and distributions normally received from the issuer of the security.

The client may exercise their right to the collateral under certain circumstances such as, in the event of insolvency of the Dealer or when the Dealer is unable to recall loaned securities within stipulated timeframes. If the client exercises this right, they may have a deemed disposition of the loaned security which could result in tax implications.

1.4.4 Delay in recalling securities

The client may not get their securities back from the Dealer on termination of the securities loan transaction if there is limited availability for the Dealer to recall, borrow or buy-in the securities. The client will be impacted in the following circumstances:

- if the client wants to vote on the securities,
- if the client wants to transfer the securities out, or
- if there is a trading halt on the loaned securities. In such cases, the client's recourse is reflected in the value of the collateral until the halt is lifted or removed on the loaned securities.

This risk does not impact the client if they sell the securities on loan.

1.4.5 Recourse in the event of a Dealer insolvency

In fully paid lending, the credit risk to the client arises from a Dealer insolvency. If the borrowing Dealer were to go insolvent, the client may not receive their loaned securities back and may have limited recourse to the collateral because:

- The Investor Protection Fund (**IPF**) does not cover the client's securities that are on loan. If there is a shortfall in the assets available in the customer pool, the client may not receive back the securities on loan. However, client securities subject to a securities loan arrangement, such as a FPL program, but that are not on loan, remain eligible for IPF coverage.
- At this time the treatment of client collateral in the event of Dealer insolvency under the *Bankruptcy and Insolvency Act* (**BIA**) remains untested in court. As such there is no absolute legal certainty regarding those instances the court will determine that the client collateral is allocated to the "customer pool fund", the "general fund", or otherwise subject to other priority treatments.

1.4.6 Conflicts of interest

Fully paid lending has the potential to raise compensation-related conflicts of interest. Some examples are discussed below.

- In a managed account, the portfolio manager is authorized to conduct discretionary trading on behalf of a client and has a fiduciary duty to act in the best interest of the client in exercising that authority. A conflict of interest may arise as the portfolio manager may be influenced by the potential revenue generated through the client's participation in fully paid lending.
- Where the Dealer has a proprietary/firm trading desk, they may generate profits by borrowing client's securities to cover short selling in their own proprietary trading accounts. In the long-term, short selling could potentially drive down the value of the client's securities.

- The likelihood of short selling impacting the value of securities is higher for securities that are not widely held or have smaller market capitalizations. If these securities have an attractive borrow fee, a conflict of interest for the Dealer may arise when borrowing and lending out these securities. Ultimately it is the client that bears the risk of loss in value of their securities which may be over and above the borrow fee they are earning.
- When there is both internal Dealer demand and street borrower demand for securities held by the client, the Dealer may favour their own demand at the expense of the client. An inappropriate conflict of interest may arise if the compensation the client receives from the Dealer, as ultimate borrower, is less than the borrow fee the client would have received if the securities were loaned to street borrowers.

1.4.7 Market integrity

The potential for market manipulation may increase if the types of securities being lent are not actively traded or not widely held. Such securities may be more vulnerable to practices like "short and distort"[5] schemes and short squeezes[6]. Similarly, increased short selling in these securities may make them hard-to-borrow. This would result in delays in obtaining securities if a loan is terminated, and increased issues with settlements.

Dealers are expected to mitigate such risks through efficient risk management measures and compliance with our rules and standards.

2. CIRO's requirements on fully paid lending

2.1 Overview of regulatory framework

Dealers who carry out fully paid lending with their retail clients, including retail clients of an introducing broker or portfolio manager whose accounts the Dealer carries, must comply with the:

- IDPC Rules requirements of general application,[7]
- IDPC Rules requirements specific to financing arrangements (Rule 4600), and in particular Part B.2 of Rule 4600, and
- Form 1 requirements.

Dealers must contact CIRO with a change in business model notification before engaging in fully paid lending activity. CIRO can prescribe additional requirements and restrictions on such activity in compliance with section 4630.

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[5] Investors who commit "short and distort" fraud generate false adverse information about issuers whose securities they sold short in order to drive down the price of the securities.

[6] If the client holds a material position in a security which is out on loan and the client suddenly terminates the loan, this may artificially push the price of the security upwards due to short sellers trying to release positions quickly to deliver on the recall, thereby effecting a "short squeeze".

[7] Subject to the Dealer business model, these include standards of conduct and requirements around know-your-customer, know your product, product due diligence, suitability determination, conflicts of interest management, customer asset protection, supervision and risk management, to name a few.

2.2 Pre-conditions for borrowing client securities

A Dealer can borrow the client's securities only upon the lending client's prior consent as part of a written securities loan agreement.[8]

In addition, the Dealer can only borrow securities from their clients upon the determination that the borrowing arrangement is suitable to the lending client, such determination carried out in compliance with Rule 3400.[9] The suitability determination exemptions of section 3404 do apply to fully paid lending. For instance, when the Dealer is borrowing from the clients' accounts it carries, the Dealer may rely on the suitability determination of the client's introducing broker or the portfolio manager.[10] Also, Dealers who borrow from their clients' order execution only accounts are exempt from the suitability determination requirements.[11]

2.3 Securities loan agreement

For the Dealer to borrow their clients' securities, the Dealer must enter into a written securities loan agreement with the lending client, containing at the very minimum the terms prescribed in section 4622.

In practice, it is not uncommon for there to be third parties involved in the securities loan arrangement, such as an introducing broker, a portfolio manager or a collateral agent. These entities can be a party to the same loan agreement between the borrowing Dealer and the lending clients or a series of agreements which nevertheless are treated as part of the same securities loan agreement for the purposes of our rules. The agreement, or agreements, must clearly identify the roles, rights and responsibilities of the client as the lender, the Dealer as the borrower and those of the third party in the loan arrangement. For instance, when the Dealer borrows from the clients' accounts it carries on behalf of an introducing broker or portfolio manager, the securities loan agreement(s) must clearly identify:

- the client as the lender;
- the Dealer, in its capacity as carrying broker (for the introducing broker) or custodian (for the portfolio manager), and as the borrower.
- the introducing broker or portfolio manager and their responsibility for client eligibility, appropriateness and suitability.

The client or the Dealer can terminate a loan at any time. The client may want to terminate a loan for a variety of reasons including:

- selling the securities,
- exercising their voting rights, or
- transferring the securities out of the account.

The client can sell their loaned securities any time and follow normal-course processes at the Dealer to place their sell order. If the client wants to terminate the loan for any other reason, they must notify the

[8] Clause 4621(1)(i).
[9] Clause 4621(1)(ii).
[10] Subsection 3404(2).
[11] Subsection 3404(1).

Dealer in advance. The Dealer may restrict the client's participation and eligibility in fully paid lending, such as in a FPL program, if the client frequently terminates the securities loan transactions. When a loan is terminated, the Dealer will attempt to recall, borrow or buy-in the securities.

The client has the right to impose restrictions on the Dealer borrowing in the client's accounts such as:

- securities that they would like to exclude from lending, and
- the total dollar value of securities they are willing to lend. The Dealer is expected to review their fully paid lending transactions against this criterion daily and terminate loans that exceed the client's imposed limit as soon as possible.

2.4 Disclosure and client's acknowledgment

At the time of entering into the securities loan agreement, the borrowing Dealer must provide the lending client with adequate written disclosures regarding the loan arrangement and obtain the lending client's written acknowledgment to have read and understood the disclosures provided.[12]

The securities loan disclosure should include a clear description of:

- the loan structure, such as for instance the FPL program, the type of accounts or sub-accounts to be opened and the purpose of borrowing the client securities,
- the benefits of the arrangement for the clients,
- relevant risks specific to the client, such as:
    - market risks that could result from the loaned securities being used to facilitate short selling which could put downward pressure on the price of the loaned securities,
    - restrictions on access to loaned securities on demand if the Dealer is unable to recall the securities within the timeframes stipulated by the Dealer,
    - potential tax implications from the client receiving manufactured payments from the Dealer (in lieu of dividends and distributions directly from the issuer) or exercising their rights to the collateral,
    - potential tax implications arising from ambiguities in the application of tax laws related to fully paid lending from registered or non registered accounts, as applicable,
    - loss of voting rights on securities that are out on loan, including that the Dealer may not be able to recall the loaned securities in time to vote (i.e. before the record date) and that the loaned securities could be voted on contrary to how the client might have wanted to vote,
    - lending out securities may trigger insider or early warning reporting requirements under applicable securities laws,
    - restrictions on access to collateral, and

[12] Section 4623.

- in the event of insolvency of the Dealer, limitations on recourse to collateral,

and

- the limitations on the IPF coverage, including the following statement or a statement that is substantially similar:

> *Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.*

2.5 Collateral

Once the Dealer and the client enter into a securities loan agreement, which in practice can mean the client is enrolled in the Dealer's FPL program, the Dealer may borrow securities from the client at any time. At the time of borrowing the client securities, the Dealer must provide to the client, and maintain for the duration of the loan, adequate collateral to fully secure the loan.

For the collateral to be deemed adequate it must, at a minimum, satisfy the requirements of section 4624. These requirements seek to protect the client's claim on the collateral, given that this is the only recourse they may have in the event of Dealer's default or insolvency.

At this time, CIRO has restricted the collateral to cash collateral in consideration of investor protection concerns. In exceptional circumstances, CIRO may permit the use of qualified securities as collateral[13] and only when it is satisfied that the clients' interests are not compromised.

On a daily basis, the Dealer must mark to market the borrowed securities and collateral, on a loan-by-loan basis,[14] and adjust for any collateral deficiency (e.g. if the value of the fully paid securities increases relative to the required collateral).

2.6 Asset reuse prohibition

Section 4625 sets out asset reuse restrictions in order to minimize the risks associated with such practices. As such, neither the Dealer nor the client can reuse for any other purposes the assets provided as collateral under section 4624. This means that the collateral cannot be withdrawn by the client or used to settle the purchase of securities in the account. Similarly, the Dealer cannot reuse or rehypothecate the assets while they are set aside as collateral. For further clarity, the collateral is excluded from the calculation of the loan value in the client's account or from free credits available for use by the Dealer.

For clarity, similar to the collateral, fully paid securities that have been loaned by the client to the Dealer cannot be reused by the Dealer or the client. Since securities loaned under Part B.2. of Rule 4600 are fully paid for by the client, the Corporation requirements related to fully paid securities would prohibit the Dealer or client from using the fully paid securities for purposes other than the lending transaction. For example, if the fully paid securities were needed to cover a margin requirement in the client account, the securities would no longer be considered fully paid and would no longer qualify for a

[13] Subsection 4624(2).
[14] Clause 4603(1)(i).

fully paid lending arrangement. Our rules however do not prohibit the lending client from engaging in hedging strategies where the hedged securities are not reused but instead simply providing an economic hedge in the hedging strategy.

2.7 Recordkeeping

The Dealer must record the client's securities loan transactions in the same account as, or a sub-account(s) of, the client's securities trading account (**FPL combined account**).[15] Such records must clearly distinguish the loaned securities and collateral provided.

2.8 Client communications

Dealer's activity with clients, including fully paid lending, triggers several client communications under the IDPC Rules such as, trade confirmations or notices, periodic statements and reports.[16] These communications must adequately disclose the securities on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.[17]

Depending on the Dealer business and fully paid lending model, the obligation to deliver the client communication under our rules may be with the borrowing Dealer, the introducing broker, the portfolio manager or the collateral agent. The responsibility for such obligation must be clearly disclosed to the client in the securities loan agreement.

For the purposes of complying with section 4627, we consider the following client communications regarding the loan activity in the client's account to be adequate:

- prompt trade confirmation or notices with all required details related to the securities loan transaction are sent to the lending client once the following has occurred:
    - securities have been loaned,
    - the loan is terminated, or
    - there is a change in fees and/or rates.
- the monthly statements[18] sent to the lending client on the FPL combined account:
    - distinguish client securities that are on loan and collateral received in return from securities that are segregated,
    - include the market value of security positions on loan in the total market value of the security positions in the FPL combined account,
    - exclude cash collateral from the total cash balance in the FPL combined account, and

[15] Subsection 4626(1). This is distinct from the general rule requirement, under clause 4603(3)(ii), whereby financing accounts must be kept separate from the client's securities trading accounts.
[16] Sections 3808 to 3811, section 3816 and subsection 4603(4).
[17] Section 4627.
[18] Subsection 4603(4).

- provide the following specific disclosure on IPF coverage:

  Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.

- the annual performance report and fee/charge report for the FPL combined account incorporate the lending activity in the client account in the following manner:
  - where the Dealer pays the client a spread or split of the total borrow fee received from street borrowers:
    - the annual performance report includes that portion of the securities lending revenue earned by the client, and
    - the annual fee/charge report includes, at a minimum, text disclosure describing all compensation earned by the Dealer, and the introducing broker or portfolio manager as applicable, from lending the client securities.
  - where the Dealer pays the client a fixed or gross borrow fee and/or deducts an amount for fees and charges:
    - the annual performance report includes the gross fee amount received by the client before any deductions, and
    - the annual fee/charge report includes:
      - the dollar amount of all fees and charges paid by the client to the Dealer, and to the introducing broker or portfolio manager as applicable, and
      - text disclosure that describes all compensation earned by the Dealer, and the introducing broker or portfolio manager as applicable, from lending the client securities.

2.9 Restrictions on securities eligible for borrowing

Pursuant to section 4628, CIRO may impose restrictions on the securities eligible for borrowing when it deems to be in the interest of the clients and the public. These restrictions are published on CIRO's website.

To ensure compliance with the securities eligibility restrictions, Dealers are expected to maintain a list of securities eligible under their fully paid lending activity based on the restrictions criteria. They are also expected to review their fully paid lending transactions against these criteria at least monthly and terminate loans that don't meet the criteria as soon as possible.

2.10 Conflicts of interest

Fully paid lending raises material conflicts of interest concerns, as discussed earlier. This is especially the case when the Dealer borrows securities from their clients to settle or cover their own inventory trading strategies.

Dealers are reminded of their obligation to identify and address material conflicts of interest in the best interest of their client.[19] This includes avoiding engaging in the activity that gives rise to the conflict of interest with the client until such time the Dealer can demonstrate that it can manage such conflict in the client's best interest, in compliance with our conflicts of interest requirements.

2.11 Borrowing from clients of introducing brokers and portfolio managers

Dealers, as gatekeepers of the capital markets integrity, have a responsibility of detecting and refraining from engaging in activity that is in contravention of CIRO rules and securities laws. As such, when borrowing from clients of introducing brokers and portfolio managers, whose accounts the Dealer carries, the Dealer is expected to obtain a confirmation that:

- each introducing broker has received a non-objection letter from CIRO before fully paid securities of clients of introducing brokers are borrowed by the Dealer;
- each portfolio manager has notified the applicable Canadian Securities Administrators regulator before fully paid securities of clients of portfolio managers are borrowed by the Dealer.

2.12 Policies and procedures

The borrowing Dealer is required to have adequate policies and procedures specific for fully paid lending to ensure compliance with CIRO requirements and applicable laws.[20] We consider such policies and procedures to be in compliance with our requirements, when they adequately address:

- the minimum eligibility criteria for clients to engage in fully paid lending, such as to participate in a FPL program,
- appropriateness and suitability of the fully paid lending, such as a FPL program, for clients with advisory and managed accounts,[21]
- identification of conflicts of interest with clients,[22]
- processes for handling and resolving client questions and requests, and
- operational processes including:
    - how loan transactions are initiated, terminated, and changed and the timeframes for each transaction,
    - how lending opportunities and recall requests are allocated to clients, and

[19] Section 3112.
[20] Section 1404.
[21] Section 3211 and Rule 3400.
[22] Rule 3100 – Part B

- how client compensation is calculated and when it is deposited to the client account.

2.13 Regulatory reporting

The borrowing Dealer needs to ensure accurate reporting of client securities lending balances in the Monthly Financial Report (**MFR**) and Form 1, and calculation of the segregation, concentration and margin requirements as follows:

- The cash collateral provided to clients must be reported on Statement A of the MFR and Form 1 on:
  - Line 6 Loans receivable, securities borrowed and resold
  - Line 53 *Client accounts*
- The collateral (cash or securities) provided to clients must be excluded from client net equity reported on Schedule 10 of Form 1.[23]
- The cash collateral must be excluded from free credits reported on Statement D, Line 2 of Form 1.
- The collateral (cash or securities) must be excluded from the calculation of client margin in the FPL combined account.
- The loaned securities must be excluded from the assessment of securities concentration in the MFR and Form 1.
- The loaned securities and the corresponding collateral must be excluded from the determination of segregation requirements in the FPL combined account.
- Margin must be reported on Schedule 1 if the Dealer has not segregated, within one business day, sufficient collateral for the client as required in subsection 4624(3).

2.14 Special audit report

Upon CIRO's request, the borrowing Dealer must produce an independent audit report[24] that certifies the adequacy of the policies and procedures, systems and controls concerning the Dealer fully paid lending activity and compliance with the Corporation's requirements.[25] We expect this report to demonstrate adequacy, among others, in the following areas:

- the client's securities on loan meet criteria and thresholds set by the client, CIRO and the Dealer,
- the client's securities on loan are separately identified from all other eligible fully paid or excess margin securities that are not being loaned to the Dealer,

[23] The client net equity reported on Schedule 10 must include the value of the loaned securities.
[24] CIRO, at its own discretion, may request that the report be produced by an external auditor when there are concerns with the independence of the internal audit.
[25] Section 4629.

- securities loan transactions are separately disclosed in the client's monthly account statement but within the securities trading account, or a sub-account thereof,
- the revenue, compensation, fees paid to the client for borrowing their securities are accurately calculated according to the securities loan agreement and confirmation, and
- the Dealer's systems are able to accurately calculate and generate reporting for the following:
    - client net equity for each client account and in aggregate under the fully paid lending activity
        i) excluding securities on loan and corresponding collateral
        ii) including securities on loan and corresponding collateral
    - free credits available for use by the Dealer that excludes cash collateral provided to clients under fully paid lending,
    - margin and segregation requirements for other client assets which excludes client securities on loan and corresponding collateral received,
    - securities record information that separately identifies:
        i) securities on loan for each client
        ii) location of all securities on loan
        iii) securities not on loan for each client and the locations of the securities.
    - the daily mark-to-market requirements on the collateral to be set aside for the client including:
        i) accurate pricing of the fully paid securities on loan
        ii) tracking whether sufficient collateral has been set aside.

3. Applicable Rules

This Guidance relates to the following main rules:

- Part B.2. of IDPC Rule 4600, and
- Notes and instructions to Form 1.

4. Previous Guidance Note(s)

This Guidance replaces Guidance GN-4600-22-001– *Fully-paid Securities Lending*.

5. Related Documents

This Guidance is published under [2#-####].

Appendix G – Blackline comparison of the revised guidance to last publication

##, 202# [Date]
GN-[SERIES]-2#-#### [Guidance Note number]
Rules Bulletin > Guidance Note

Contact:
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Rule Connection: IDPC Rules
Division: Investment Dealer

Guidance on fully paid securities lending

Executive Summary

The Canadian Investment Regulatory Organization (**CIRO**) is publishing guidance regarding Dealer Members' practice of borrowing fully paid and excess margin securities[1] from their retail clients and compliance with Part B.2. of Rule 4600 of the Investment Dealer and Partially Consolidated (**IDPC)** Rules.

Part B.2. of Rule 4600 does not apply to institutional client securities lending, including institutional client fully paid lending, which is governed under the traditional lending requirements of Rule 4600.[2] Should the institutional client choose to be treated as a retail client for the purpose of their fully paid lending arrangement with the Dealer Member (**Dealer**), such arrangement is subject to the application of Part B.2. of Rule 4600 and the expectations of this guidance.[3]

In this guidance, all rule references are to the IDPC Rules unless otherwise specified.

[1] Across this guidance we refer to this practice as simply 'fully paid lending'.
[2] Part A and Part B.1. of Rule 4600.
[3] Section 4620.

Appendix G – Blackline comparison of the revised guidance to last publication

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Appendix G – Blackline comparison of the revised guidance to last publication

1. Fully paid securities lending overview

1.1 Fully paid lending

Fully paid securities lending refers to the Dealer Member (**Dealer**) practice of borrowing client's fully paid or excess margin securities.

1.2 Benefits of fully paid lending

Securities lending is a common market practice in Canada. Dealers with self-clearing operations generally have securities lending desks that, among other things, earn revenue by lending securities (that they own and/or hold for clients on margin) to institutions such as hedge funds, financial institutions and other broker-dealers (**street borrowers**).

In addition, Dealers borrow their client's fully paid securities or excess margin securities, to meet their in-house demand or the street borrower's demand. The clients earn passive income on the loaned assets as a result.

Securities lending is beneficial to the market because it unlocks securities for which there is demand, for instance to:

- facilitate trading strategies like short selling,
- meet collateral requirements, and
- fulfill settlement obligations, thereby increasing settlement efficiency.

1.3 Key characteristics of fully paid lending

Dealers hold fully paid and excess margin securities in custody for their own clients, clients of other Dealers (introducing brokers), or clients of portfolio managers. In practice, Dealers generally borrow these securities as part of fully paid lending programs (**FPL programs**), which operate as follows:

- eligible retail clients agree to lend to the Dealer fully paid or excess margin securities[4] held in their securities trading account (cash account or margin account);
- the Dealer, as borrower of these securities, provides collateral to the lending clients; such collateral is held by the Dealer in trust for such clients in a separate account (cash collateral) or at a collateral agent (e.g. securities collateral);
- the Dealer uses the borrowed securities for their own needs or lends the securities to street borrowers in return for collateral.

In fully paid lending, such as for instance FPL programs, the Dealer borrows from their clients as principal, meaning that the Dealer transacts directly with their client as

[4] From this point on in guidance, we simply use 'securities' to refer to 'fully paid and excess margin securities', unless otherwise specified.

borrower, and then with the street borrower as lender, in two separate transactions. The client and street borrower are unknown to each other and do not have any legal rights or responsibilities to each other with respect to the loan transaction. Street borrowers pay a fee to the lender based on the supply and demand of the securities in the lending market. In particular, securities that have limited supply, but substantial demand are considered "hard to borrow" and command higher borrow fees. The Dealer shares the borrow fee with the client, which is deposited in the client's securities account every month.

While the title and ownership of the loaned securities transfers to the borrower, the lending client remains the beneficial owner of these securities. As a result, the Dealer generates manufactured payments (i.e. in lieu of dividends and distributions) for the securities that are out on loan, which are deposited in the client's securities account on a normal pay date.

1.4 Risks associated with securities lending

Fully paid lending does not come without risks, especially for the retail client who may not have the same level of sophistication, trading knowledge or tools as institutional lenders. Some of these risks are discussed below.

1.4.1. Market risks

Loaned securities are often in demand by street borrowers to support short sales. Short selling could potentially put downward pressure on the long-term value of the client's long security position. The likelihood of downward market impact increases for securities that are not widely held nor actively traded.

1.4.2 Loss of voting rights

When the title and ownership of the loaned securities transfers to the borrowing Dealer, client's voting rights on loaned securities also pass to such Dealer and, if loaned on to street borrowers, pass on to the ultimate borrower. If the client wishes to vote on the securities, they need to request a recall of the securities (i.e. terminate the loan). There is a risk that:

- the Dealer may not get the securities back to the client in time to vote;
- fully paid lending, such as FPL programs, may exacerbate "empty voting". Empty voting refers to a practice where securities are borrowed in large numbers to effect a vote on a significant transaction or contested proxy battles, which may not be aligned with how the client, who is the beneficial owner, would have voted.

1.4.3 Tax implications

The client may have tax implications associated with:

- the manufactured payments, and
- exercising their right to the collateral.

Since the client remains the beneficial owner of the securities that are out on loan, in order to reflect the client's entitlement to the economic benefit of their loaned securities, the Dealer makes a "manufactured payment" to the client that mirrors all dividends and distributions on the securities. The client may experience unintended and undesired tax consequences because the manufactured payment may not have the same tax treatment as the dividends and distributions normally received from the issuer of the security.

The client may exercise their right to the collateral under certain circumstances such as, in the event of insolvency of the Dealer or when the Dealer is unable to recall loaned securities within stipulated timeframes. If the client exercises this right, they may have a deemed disposition of the loaned security which could result in tax implications.

1.4.4 Delay in recalling securities

The client may not get their securities back from the Dealer on termination of the securities loan transaction if there is limited availability for the Dealer to recall, borrow or buy-in the securities. The client will be impacted in the following circumstances:

- if the client wants to vote on the securities,
- if the client wants to transfer the securities out, or
- if there is a trading halt on the loaned securities. In such cases, the client's recourse is reflected in the value of the collateral until the halt is lifted or removed on the loaned securities.

This risk does not impact the client if they sell the securities on loan.

1.4.5 Recourse in the event of a Dealer insolvency

In fully paid lending, the credit risk to the client arises from a Dealer insolvency. If the borrowing Dealer were to go insolvent, the client may not receive their loaned securities back and may have limited recourse to the collateral because:

- The Investor Protection Fund (**IPF**) does not cover the client's securities that are on loan. If there is a shortfall in the assets available in the customer pool, the client may not receive back the securities on loan. However, client securities subject to a securities loan arrangement, such as a FPL program, but that are not on loan, remain eligible for IPF coverage.
- At this time the treatment of client collateral in the event of Dealer insolvency under the *Bankruptcy and Insolvency Act* (**BIA**) remains untested in court. As such there is no absolute legal certainty regarding those instances the court will

determine that the client collateral is allocated to the "customer pool fund", the "general fund", or otherwise subject to other priority treatments.

1.4.6 Conflicts of interest

Fully paid lending has the potential to raise compensation-related conflicts of interest. Some examples are discussed below.

- In a managed account, the portfolio manager is authorized to conduct discretionary trading on behalf of a client and has a fiduciary duty to act in the best interest of the client in exercising that authority. A conflict of interest may arise as the portfolio manager may be influenced by the potential revenue generated through the client's participation in fully paid lending.
- Where the Dealer has a proprietary/firm trading desk, they may generate profits by borrowing client's securities to cover short selling in their own proprietary trading accounts. In the long-term, short selling could potentially drive down the value of the client's securities.
- The likelihood of short selling impacting the value of securities is higher for securities that are not widely held or have smaller market capitalizations. If these securities have an attractive borrow fee, a conflict of interest for the Dealer may arise when borrowing and lending out these securities. Ultimately it is the client that bears the risk of loss in value of their securities which may be over and above the borrow fee they are earning.
- When there is both internal Dealer demand and street borrower demand for securities held by the client, the Dealer may favour their own demand at the expense of the client. An inappropriate conflict of interest may arise if the compensation the client receives from the Dealer, as ultimate borrower, is less than the borrow fee the client would have received if the securities were loaned to street borrowers.

1.4.7 Market integrity

The potential for market manipulation may increase if the types of securities being lent are not actively traded or not widely held. Such securities may be more vulnerable to practices like "short and distort"[5] schemes and short squeezes[6]. Similarly, increased short

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[5] Investors who commit "short and distort" fraud generate false adverse information about issuers whose securities they sold short in order to drive down the price of the securities.

[6] If the client holds a material position in a security which is out on loan and the client suddenly terminates the loan, this may artificially push the price of the security upwards due to short sellers trying to release positions quickly to deliver on the recall, thereby effecting a "short squeeze".

selling in these securities may make them hard-to-borrow. This would result in delays in obtaining securities if a loan is terminated, and increased issues with settlements.

Dealers are expected to mitigate such risks through efficient risk management measures and compliance with our rules and standards.

2. CIRO's requirements on fully paid lending

2.1 Overview of regulatory framework

Dealers who carry out fully paid lending with their retail clients, including retail clients of an introducing broker or portfolio manager whose accounts the Dealer carries, must comply with the:

- IDPC Rules requirements of general application,[7]
- IDPC Rules requirements specific to financing arrangements (Rule 4600), and in particular Part B.2 of Rule 4600, and
- Form 1 requirements.

Dealers must contact CIRO with a change in business model notification before engaging in fully paid lending activity. CIRO can prescribe additional requirements and restrictions on such activity in compliance with section 4630.

2.2 Pre-conditions for borrowing client securities

A Dealer can borrow the client's securities only upon the lending client's prior consent as part of a written securities loan agreement.[8]

In addition, the Dealer can only borrow securities from their clients upon the determination that the borrowing arrangement is suitable to the lending client, such determination carried out in compliance with Rule 3400.[9] The suitability determination exemptions of section 3404 do apply to fully paid lending. For instance, when the Dealer is borrowing from the clients' accounts it carries, the Dealer may rely on the suitability determination of the client's introducing broker or the portfolio manager.[10] Also, Dealers who borrow from their clients' order execution only accounts are exempt from the suitability determination requirements.[11]

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[7] Subject to the Dealer business model, these include standards of conduct and requirements around know-your-customer, know your product, product due diligence, suitability determination, conflicts of interest management, customer asset protection, supervision and risk management, to name a few.

[8] Clause 4621(1)(i).

[9] Clause 4621(1)(ii).

[10] Subsection 3404(2).

[11] Subsection 3404(1).

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2.3 Securities loan agreement

For the Dealer to borrow their clients' securities, the Dealer must enter into a written securities loan agreement with the lending client, containing at the very minimum the terms prescribed in section 4622.

In practice, it is not uncommon for there to be third parties involved in the securities loan arrangement, such as an introducing broker, a portfolio manager or a collateral agent. These entities can be a party to the same loan agreement between the borrowing Dealer and the lending clients or a series of agreements which nevertheless are treated as part of the same securities loan agreement for the purposes of our rules. The agreement, or agreements, must clearly identify the roles, rights and responsibilities of the client as the lender, the Dealer as the borrower and those of the third party in the loan arrangement. For instance, when the Dealer borrows from the clients' accounts it carries on behalf of an introducing broker or portfolio manager, the securities loan agreement(s) must clearly identify:

- the client as the lender;
- the Dealer, in its capacity as carrying broker (for the introducing broker) or custodian (for the portfolio manager), and as the borrower.
- the introducing broker or portfolio manager and their responsibility for client eligibility, appropriateness and suitability.

The client or the Dealer can terminate a loan at any time. The client may want to terminate a loan for a variety of reasons including:

- selling the securities,
- exercising their voting rights, or
- transferring the securities out of the account.

The client can sell their loaned securities any time and follow normal-course processes at the Dealer to place their sell order. If the client wants to terminate the loan for any other reason, they must notify the Dealer in advance. The Dealer may restrict the client's participation and eligibility in fully paid lending, such as in a FPL program, if the client frequently terminates the securities loan transactions. When a loan is terminated, the Dealer will attempt to recall, borrow or buy-in the securities.

The client has the right to impose restrictions on the Dealer borrowing in the client's accounts such as:

- securities that they would like to exclude from lending, and
- ~~their maximum risk tolerance limit on~~ the total dollar value of securities they are willing to lend. The Dealer is expected to review their fully paid lending

transactions against this criterion daily and terminate loans that exceed the client's ~~risk tolerance~~imposed limit as soon as possible.

2.4 Disclosure and client's acknowledgment

At the time of entering into the securities loan agreement, the borrowing Dealer must provide the lending client with adequate written disclosures regarding the loan arrangement and obtain the lending client's written acknowledgment to have read and understood the disclosures provided.[12]

The securities loan disclosure~~, must conform to our standards of disclosure[13] and at the minimum contain~~ should include a clear description of:

- the loan structure, such as for instance the FPL program, the type of accounts or sub-accounts to be opened and the purpose of borrowing the client securities,
- the benefits of the arrangement for the clients,
- ~~all applicable~~relevant risks specific to the client, such as ~~for instance~~:
    - market risks that could result from the loaned securities being used to facilitate short selling which could put downward pressure on the price of the loaned securities,
    - restrictions on access to loaned securities on demand if the Dealer is unable to recall the securities within the timeframes stipulated by the Dealer,
    - potential tax implications ~~of~~from the client receiving manufactured payments from the Dealer (in lieu of dividends and distributions directly from the issuer) or exercising their rights to the collateral,
    - potential tax implications ~~if the client exercises their rights to the collateral~~arising from ambiguities in the application of tax laws related to fully paid lending from registered or non registered accounts, as applicable,
    - loss of voting rights on securities that are out on loan, including that the Dealer may not be able to recall the loaned securities in time to vote (i.e. before the record date) and that the loaned securities could be voted on contrary to how the client might have wanted to vote,

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[12] Section 4623.

[13] ~~Section 3216. We consider the risk disclosure to conform to our standard of meaningful disclosure when it is such that the client, as a reasonably knowledgeable person, would clearly understand the implications and risks of lending their securities.~~

- lending out securities may trigger insider or early warning reporting requirements under applicable securities laws,
- restrictions on access to collateral, and
- in the event of insolvency of the Dealer, limitations on recourse to collateral,

and

- the limitations on the IPF coverage, including the following statement or a statement that is substantially similar:

> *Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.*

2.5 Collateral

Once the Dealer and the client enter into a securities loan agreement, which in practice can mean the client is enrolled in the Dealer's FPL program, the Dealer may borrow securities from the client at any time. At the time of borrowing the client securities, the Dealer must provide to the client, and maintain for the duration of the loan, adequate collateral to fully secure the loan.

For the collateral to be deemed adequate it must, at a minimum, satisfy the requirements of section 4624. These requirements seek to protect the client's claim on the collateral, given that this is the only recourse they may have in the event of Dealer's default or insolvency.

At this time, CIRO has restricted the collateral to cash collateral in consideration of investor protection concerns. In exceptional circumstances, CIRO may permit the use of qualified securities as collateral[~~14~~13] and only when it is satisfied that the clients' interests are not compromised.

On a daily basis, the Dealer must mark to market the borrowed securities and collateral, on a loan-by-loan basis,[~~15~~14] and adjust for any collateral deficiency (e.g. if the value of the fully paid securities increases relative to the required collateral).

2.6 Asset reuse prohibition

Section 4625 sets out asset reuse restrictions in order to minimize the risks associated with such practices.

[~~14~~13] Subsection 4624(2).

[~~15~~14] Clause 4603(1)(i).

~~Securities loaned under Part B.2. of Rule 4600 are removed from segregation while on loan and therefore cannot be used by the lending client in any hedging strategy. For example, the Dealer cannot borrow a security from a client if the security is used to reduce margin as part of a margin offset in the client account.~~

~~Also~~As such, neither the Dealer nor the client can reuse for any other purposes the assets provided as collateral under section 4624. This means that the collateral cannot be withdrawn by the client or used to settle the purchase of securities in the account. Similarly, the Dealer cannot reuse or rehypothecate the assets while they are set aside as collateral. For further clarity, the collateral is excluded from the calculation of the loan value in the client's account or from free credits available for use by the Dealer.

For clarity, similar to the collateral, fully paid securities that have been loaned by the client to the Dealer cannot be reused by the Dealer or the client. Since securities loaned under Part B.2. of Rule 4600 are fully paid for by the client, the Corporation requirements related to fully paid securities would prohibit the Dealer or client from using the fully paid securities for purposes other than the lending transaction. For example, if the fully paid securities were needed to cover a margin requirement in the client account, the securities would no longer be considered fully paid and would no longer qualify for a fully paid lending arrangement. Our rules however do not prohibit the lending client from engaging in hedging strategies where the hedged securities are not reused but instead simply providing an economic hedge in the hedging strategy.

2.7 Recordkeeping

The Dealer must record the client's securities loan transactions in the same account as, or a sub-account(s) of, the client's securities trading account (**FPL combined account**).[~~16~~15] Such records must clearly distinguish the loaned securities and collateral provided.

2.8 Client communications

Dealer's activity with clients, including fully paid lending, triggers several client communications under the IDPC Rules such as, trade confirmations or notices, periodic statements and reports.[~~17~~16] These communications must adequately disclose the securities on loan, the collateral provided, the revenue earned, and commissions or fees paid directly or indirectly by the client.[~~18~~17]

Depending on the Dealer business and fully paid lending model, the obligation to deliver the client communication under our rules may be with the borrowing Dealer, the introducing broker, the portfolio manager or the collateral agent. The responsibility for such obligation must be clearly disclosed to the client in the securities loan agreement.

[~~16~~15] Subsection 4626(1). This is distinct from the general rule requirement, under clause 4603(3)(ii), whereby financing accounts must be kept separate from the client's securities trading accounts.

[~~17~~16] Sections 3808 to 3811, section 3816 and subsection 4603(4).

[~~18~~17] Section 4627.

For the purposes of complying with section 4627, we consider the following client communications regarding the loan activity in the client's account to be adequate:

- prompt trade confirmation or notices with all required details related to the securities loan transaction are sent to the lending client once the following has occurred:
    - securities have been loaned,
    - the loan is terminated, or
    - there is a change in fees and/or rates.
- the monthly statements[~~19~~18] sent to the lending client on the FPL combined account:
    - distinguish client securities that are on loan and collateral received in return from securities that are segregated,
    - include the market value of security positions on loan in the total market value of the security positions in the FPL combined account,
    - exclude cash collateral from the total cash balance in the FPL combined account, and
    - provide the following specific disclosure on IPF coverage:

        Fully paid securities lent under [Dealer Members's] fully paid lending activity are not eligible for the Investor Protection Fund (IPF) coverage. Fully paid securities not lent under [Dealer Members's] fully paid lending activity and held at [Dealer Member], as at the date of insolvency of [Dealer Member], are eligible for the IPF coverage.
- the annual performance report and fee/charge report for the FPL combined account incorporate the lending activity in the client account in the following manner:
    - where the Dealer pays the client a spread or split of the total borrow fee received from street borrowers:
        - the annual performance report includes that portion of the securities lending revenue earned by the client, and
        - the annual fee/charge report includes, at a minimum, text disclosure describing all compensation earned by the Dealer, and

[~~19~~18] Subsection 4603(4).

the introducing broker or portfolio manager as applicable, from lending the client securities.

- where the Dealer pays the client a fixed or gross borrow fee and/or deducts an amount for fees and charges:
  - the annual performance report includes the gross fee amount received by the client before any deductions, and
  - the annual fee/charge report includes:
    - the dollar amount of all fees and charges paid by the client to the Dealer, and to the introducing broker or portfolio manager as applicable, and
    - text disclosure that describes all compensation earned by the Dealer, and the introducing broker or portfolio manager as applicable, from lending the client securities.

2.9 ~~Securities eligibility~~Restrictions on securities eligible for borrowing

~~Fully paid lending is restricted to securities that are held by clients in their non-registered accounts only.[20] CIRO can prescribe from time-to-time additional~~

Pursuant to section 4628, CIRO may impose restrictions on the securities eligible for borrowing when it deems to be in the interest of the clients and the public.[~~21~~] These restrictions are published on CIRO's website.

To ensure compliance with the securities eligibility restrictions, ~~Dealer~~Dealers are expected to maintain a list of securities eligible under their fully paid lending activity based on the restrictions criteria. They are also expected to review their fully paid lending transactions against these criteria at least monthly and terminate loans that don't meet the criteria as soon as possible.

2.10 Conflicts of interest

Fully paid lending raises material conflicts of interest concerns, as discussed earlier. This is especially the case when the Dealer borrows securities from their clients to settle or cover their own inventory trading strategies.

Dealers are reminded of their obligation to identify and address material conflicts of interest in the best interest of their client.[~~22~~19] This includes avoiding engaging in the

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[20] ~~Subsection 4628(1). For purposes of the fully paid lending activity, Tax-Free Savings Accounts are not considered registered accounts however, the Dealer must ensure compliance with all applicable tax laws.~~

[~~21~~] ~~Subsection 4628(2).~~

[~~22~~19] Section 3112.

activity that gives rise to the ~~conflicts~~conflict of interest with the client until such time the Dealer can demonstrate that it can manage such conflict in the client's best interest, in compliance with our conflicts of interest requirements.

2.11 Borrowing from clients of introducing brokers and portfolio managers

Dealers, as gatekeepers of the capital markets integrity, have a responsibility of detecting and refraining from engaging in activity that is in contravention of CIRO rules and securities laws. As such, when borrowing from clients of introducing brokers and portfolio managers, whose accounts the Dealer carries, the Dealer is expected to obtain a confirmation that:

- each introducing broker has received a non-objection letter from CIRO before fully paid securities of clients of introducing brokers are borrowed by the Dealer;
- each portfolio manager has notified the applicable Canadian Securities Administrators regulator before fully paid securities of clients of portfolio managers are borrowed by the Dealer.

2.12 Policies and procedures

The borrowing Dealer is required to have adequate policies and procedures specific for fully paid lending to ensure compliance with CIRO requirements and applicable laws.[~~23~~20] We consider such policies and procedures to be in compliance with our requirements, when they adequately address:

- the minimum eligibility criteria for clients to engage in fully paid lending, such as to participate in a FPL program,
- appropriateness and suitability of the fully paid lending, such as a FPL program, for clients with advisory and managed accounts,[~~24~~21]
- identification of conflicts of interest with clients,[~~25~~22]
- processes for handling and resolving client questions and requests, and
- operational processes including:
    - how loan transactions are initiated, terminated, and changed and the timeframes for each transaction,
    - how lending opportunities and recall requests are allocated to clients, and

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[~~23~~20] Section 1404.

[~~24~~21] Section 3211 and Rule 3400.

[~~25~~22] Rule 3100 – Part B

- how client compensation is calculated and when it is deposited to the client account.

2.13 Regulatory reporting

The borrowing Dealer needs to ensure accurate reporting of client securities lending balances in the Monthly Financial Report (**MFR**) and Form 1, and calculation of the segregation, concentration and margin requirements as follows:

- The cash collateral provided to clients must be reported on Statement A of the MFR and Form 1 on:
  - Line 6 Loans receivable, securities borrowed and resold
  - Line 53 *Client accounts*
- The collateral (cash or securities) provided to clients must be excluded from client net equity reported on Schedule 10 of Form 1.[~~26~~23]
- The cash collateral must be excluded from free credits reported on Statement D, Line 2 of Form 1.
- The collateral (cash or securities) must be excluded from the calculation of client margin in the FPL combined account.
- The loaned securities must be excluded from the assessment of securities concentration in the MFR and Form 1.
- The loaned securities and the corresponding collateral must be excluded from the determination of segregation requirements in the FPL combined account.
- Margin must be reported on Schedule 1 if the Dealer has not segregated, within one business day, sufficient collateral for the client as required in subsection 4624(3).

2.14 Special audit report

Upon CIRO's request, the borrowing Dealer must produce an independent audit report[~~27~~24] that certifies the adequacy of the policies and procedures, systems and controls concerning the Dealer fully paid lending activity and compliance with the Corporation's requirements.[~~28~~25] We expect this report to demonstrate adequacy, among others, in the following areas:

[~~26~~23] The client net equity reported on Schedule 10 must include the value of the loaned securities.

[~~27~~24] CIRO, at its own discretion, may request that the report be produced by an external auditor when there are concerns with the independence of the internal audit.

[~~28~~25] Section 4629.

- the client's securities on loan meet criteria and thresholds set by the client, CIRO and the Dealer,
- the client's securities on loan are separately identified from all other eligible fully paid or excess margin securities that are not being loaned to the Dealer,
- securities loan transactions are separately disclosed in the client's monthly account statement but within the securities trading account, or a sub-account thereof,
- the revenue, compensation, fees paid to the client for borrowing their securities are accurately calculated according to the securities loan agreement and confirmation, and
- the Dealer's systems are able to accurately calculate and generate reporting for the following:
    - client net equity for each client account and in aggregate under the fully paid lending activity
        i) excluding securities on loan and corresponding collateral
        ii) including securities on loan and corresponding collateral
    - free credits available for use by the Dealer that excludes cash collateral provided to clients under fully paid lending,
    - margin and segregation requirements for other client assets which excludes client securities on loan and corresponding collateral received,
    - securities record information that separately identifies:
        i) securities on loan for each client
        ii) location of all securities on loan
        iii) securities not on loan for each client and the locations of the securities.
    - the daily mark-to-market requirements on the collateral to be set aside for the client including:
        i) accurate pricing of the fully paid securities on loan
        ii) tracking whether sufficient collateral has been set aside.

3. Applicable Rules

This Guidance relates to the following main rules:

Appendix G – Blackline comparison of the revised guidance to last publication

- Part B.2. of IDPC Rule 4600, and
- Notes and instructions to Form 1.

4. Previous Guidance Note(s)

This Guidance replaces Guidance GN-4600-22-001– *Fully-paid Securities Lending*.

5. Related Documents

This Guidance is published under [2#-####].

Appendix H – Revised FPL Securities eligibility criteria

Fully paid securities lending (FPL) – Securities eligibility criteria

Effective [date], a Dealer Member (**Dealer**) may only borrow client fully paid and excess margin securities, pursuant to Part B.2. of IDPC Rule 4600, that meet the following eligibility criteria set out by CIRO in compliance with IDPC Rule section 4628.

The borrowing Dealer may only borrow client equity securities listed on an exchange. For Canadian listed equity securities, the Dealer must ensure that they meet at least one of the following criteria:

- 6-month average volume weighted average closing price ≥ $2.00, or
- 6-month average daily trading volume ≥ 100,000 shares, or
- 6-month average free float market capitalization ≥ $200 million.

The securities eligibility criteria prescribed by CIRO may change from time to time.

To ensure compliance with the securities eligibility restrictions, Dealers are expected to maintain a list of securities eligible for the fully paid lending activity based on the above criteria. They are also expected to review their fully paid lending transactions against these criteria at least monthly and terminate loans that don't meet the criteria as soon as possible.

Appendix I – Blackline comparison of the revised criteria to last publication

Fully paid securities lending (FPL) – Securities eligibility criteria

Effective [date], a Dealer Member (**Dealer**) ~~can~~may only borrow client fully paid and excess margin securities, pursuant to Part B.2. of IDPC Rule 4600, that meet the following eligibility criteria set out by CIRO in compliance with IDPC Rule section 4628.

~~***Rule prescribed criteria***[1]~~

~~The borrowing Dealer must ensure that they only borrow client securities held by clients in their non-registered accounts.~~

~~***Additional CIRO prescribed criteria***[2]~~

The borrowing Dealer ~~*Member* must~~may only borrow client equity securities listed on an exchange. For Canadian listed equity securities, the Dealer must ensure that they meet at least one of the following criteria:

- 6-month average volume weighted average closing price ≥ $2.00, or
- 6-month average daily trading volume ≥ 100,000 shares, or
- 6-month average free float market capitalization ≥ $200 million.

The securities eligibility criteria prescribed by CIRO may change from time to time.

To ensure compliance with the securities eligibility restrictions, Dealers are expected to maintain a list of securities eligible ~~under~~for the fully paid lending activity based on the above criteria. They are also expected to review their fully paid lending transactions against these criteria at least monthly and terminate loans that don't meet the criteria as soon as possible.[3]

~~[1] IDPC Rule subsection 4628(1).~~
~~[2] IDPC Rule subsection 4628(2).~~
~~[3] Guidance on fully paid securities lending GN-[SERIES]-2#-####.~~

Appendix J - Summary of public comments

Summary of Comments Received in Response to the Proposed Rule Amendments — Fully paid securities lending and financing arrangements

On February 15, 2024, CIRO issued Rules Bulletin 24-0067 requesting comments on the proposed amendments to the Investment Dealer and Partially Consolidated (**IDPC**) Rules and IDPC Form 1 (**Form 1**) relating to fully paid securities lending and financing arrangements (**Proposed Amendments**) and the revised Guidance on Fully Paid Securities Lending (**Guidance**). We received six (6) comment letters from the following commenters:

- The Canadian Securities Lending Association (CASLA)
- The Canadian Independent Finance and Innovation Counsel (CIFIC)
- Interactive Brokers Canada Inc. (IBC)
- The Investment Industry Association of Canada (IIAC), now the Canadian Forum for Financial Markets (CFFiM)
- National Bank Financial Inc. (NBF)
- Wealthsimple Investments Inc. (WSII)

Copies of these letters are publicly available on **CIRO's website**:

The following table summarizes these comments and our response:

	Summary of Comments	CIRO response
General Comments		
1.	Overall, the commenters encourage CIRO to take this opportunity to enhance the flexibility of fully paid lending (**FPL**) programs in Canada and level the opportunities for retail investors with those of institutional investors. According to the commenters, this would increase the ability of these programs to meet the market demand and expand opportunities and benefits for participating retail investors, such as maximizing their returns. In addition, commenters highlight the need for alignment with the parallel regulatory regimes on securities lending, such as Guideline B-4[1] and NI 81-102,[2] to mitigate the regulatory burden and accidental non-compliance. They also identified areas where, based on their experience, they believe the operational complexity and burden to comply with the requirements is not justified by its benefits, as discussed in more detail below.	The enhancements and flexibility suggested by commenters are generally used for traditional institutional borrowing/lending. We believe a more conservative approach is appropriate for fully paid lending where retail clients are the primary counterparties, and the borrowing Dealer Members (**Dealers**) have custody of the client securities.
Securities loan agreement [proposed rule section 4622 and guidance section 2.3]		
2.	Several commenters expressed concerns with the proposal for the client's right to impose restrictions on the products	The right for the client to impose restrictions on the Dealer borrowing from their account, such as the maximum total dollar value of securities they are willing to lend, is an

[1] Guideline B-4 *Securities Lending* (Guideline B-4) issued by the Office of the Superintendent of Financial Institutions Canada (OSFI).
[2] National Instrument 81-102 *Investment Funds* (NI 81-102) issued by the Canadian Securities Administrators (the CSA)].

	Summary of Comments	CIRO response
	Dealers can lend under the FPL Program, consistent with their risk tolerance. [IIAC, CIFIC, NBF] One commenter argued that these restrictions, if adopted, would pose operational complexity and added costs for Dealers running these programs. Dealers would have to enhance their monitoring system and compliance infrastructure and promptly terminate loans that exceed client restrictions, risking regulatory repercussions and legal liability. [CIFIC] Commenters advocate that client's risk tolerance in securities lending should be addressed within the broader context of overall client risk assessment and Dealer suitability obligation (where applicable), rather than as a standalone item. One commenter proposes the alternative of requiring clients to identify securities they wish to exclude from securities lending, rather than assigning threshold percentages, as a simpler and more efficient method. [NBF] Another commenter suggested that order execution only accounts should be exempt from such obligation, consistent with the suitability exemptions. [IIAC]	existing requirement of the current fully paid lending arrangements [see GN-4600-22-001[3], section 3.1.5). We do not believe codifying this requirement will add additional costs to existing arrangements. While some clients are comfortable with relying on their adviser or making their entire portfolio available for lending, others may prefer to have more control over their counterparty exposure and restrict how much of their portfolio can be lent out. We codified the client's basic right to impose lending restrictions without interfering with the contractual discretion between the Dealer and the client on how to exercise and operationalize such a right, either at account opening or at a later stage of their relationship. We do not believe client lending via an order execution only account should be treated any differently.
Disclosures [proposed rule section 4623 and guidance section 2.4]		
3.	Two commenters noted that the risk disclosures to investors should be meaningful and strike the right balance between	The guidance, by its nature, is generic and provides a comprehensive discussion of benefits and risks broadly

[3] CIRO Guidance on fully paid securities lending programs (**GN-4600-22-001**), which outlines current CIRO's terms and conditions on approved programs.

	Summary of Comments	CIRO response
	comprehensive disclosure and actual risks of FPL. They argued it is counterproductive to list all potential risks without distinguishing between material and speculative ones. While they acknowledge the importance of informing retail investors about potential risks, over-disclosure can lead to excessive investor caution and potentially overshadow firms' risk management efforts. [IIAC, NBF] As such the commenters recommend aligning the risk disclosure in the Draft Guidance with the actual risks of FPL, focusing on material risks and adopting a more neutral language. Drafting recommendations include: • removing references to the market integrity risk, conflicts of interest risk and the lack of legal certainty in the application of the *Bankruptcy and Insolvency Act* (BIA), and • reflecting a more balanced stance towards the relationship between securities lending and short selling, as well as the market impact of the latter.	recognized in Canada as associated with fully paid lending. We maintain neutrality by not omitting or prioritizing risks based on their probability of materializing, considering that this depends on many factors, including market conditions, Dealer fully paid lending models or the adequacy of Dealer risks management. Therefore, the guidance should be interpreted as such, with the Dealer ultimately having the responsibility for providing adequate and meaningful risk disclosure to the client. In other words, a Dealer has flexibility in drafting the disclosure document to highlight the most significant risks as long as a reasonable client would clearly understand the implications and the risks of lending their securities. We disagree with the drafting recommendations, to remove the references to potential risks from the guidance, which in our view would compromise the integrity and neutrality of the guidance if we are to omit discussing such significant risks. However, we have made some drafting adjustments to the guidance to add more clarity to our expectations of what constitutes adequate disclosure.
Collateral [proposed section 4624 and guidance section 2.5]		
Non-cash collateral eligibility [proposed subsection 4624(2)]		
4.	Several commenters recommend that CIRO recognizes Dealer's right to provide high-quality non-cash collateral	Our proposal codifies existing policy, whereby staff will pay closer attention to Dealer non-cash collateral arrangement

	Summary of Comments	CIRO response
	(e.g. high-grade government bonds or Canada, provincial, or US sovereign government-guaranteed products) to secure the client's loan by way of permissive rules rather than by way of exemptive relief. According to the commenters this would be consistent with collateral eligibility under Guideline B-4 and NI 81-102. [CASLA, IIAC, NBF]	models, such as review and approve each such arrangement where appropriate on a case-by-case basis, before being offered to the client. This is in consideration that non-cash collateral arrangements can take various forms, are deemed riskier when compared to cash collateral arrangements and it is the retail client who is ultimately exposed to such risks, especially in the event of Dealer insolvency. This process should not be confused with the exemption process. The review and approval of a Dealer collateral arrangement is carried out by staff as part of the Dealer application for offering fully paid lending, consistent with CIRO's rules, established practices and the criteria set out in the proposed section 4624.
Prescribed minimum cash collateral requirements [proposed clause 4624(3)(i)]		
5.	Two commenters disagree with the proposed increase of the minimum required cash collateral value from 100% to 102% of the borrowed securities. Current industry standards require a minimum of 100% cash collateral for transactions between dealers and financial institutions. Dealers would have to fund an additional 2% collateral increase from their own cash positions, whereas clients would be negatively impacted by a decrease in demand for client loans and therefore client revenues. [IIAC, WSII]	During prepublication consultations with our dealer members, it was noted that the existing collateral requirement, which mandates 100% of the over-collateralization collected from street borrowers to be passed on to the client, was challenging for Dealers to comply with. Fully paid lending programs can be structured so that there is no direct link between the securities lent by the client and those borrowed by a street borrower. Additionally, the Dealer would have to convert any non-cash collateral received from the street borrower into cash collateral before posting it on behalf of the client under cash collateral arrangements. Also, since Dealers

	Summary of Comments	CIRO response
	The commenters recommend keeping the current minimum margin rate for cash collateral (as per GN-4600-22-001), whereby Dealers would have to set aside as collateral: (i) 100% of the market value of the fully paid securities borrowed by the Dealer, adjusted daily for any mark-to-market deficiency, and (ii) 100% of the over-collateralization collected from street borrowers for the fully paid securities loaned by the Dealer. These commenters noted that this existing requirement has to date, provided sufficient protection of investor assets.	and street borrowers can agree to different over-collateralization rates, clients may experience different collateral coverage, even when exposed to the same counterparty risk. We believe prescribing a set collateral rate will reduce operational complexities and ensure consistency and equality for all clients by determining collateral amounts for their fully paid securities based on a uniform rate, irrespective of the Dealer's arrangements with street borrowers. We determined the rate of 102% to be appropriate as it aligns with the collateral rate commonly used by industry for cash collateral and the rate used in determining excess collateral deficiency for traditional securities borrow arrangements.
Prescribed minimum non-cash collateral requirement [proposed clause 4624(3)(ii)]		
6.	Several commenters observe that there is no justification for the proposed differences in collateralization rates of 102% for cash collateral and 105% for non-cash collateral. They highlight the cash equivalence of acceptable non-cash collateral and argue that the 102% rate provides sufficient buffer to manage counterparty credit risk and safeguard lenders in the event of borrower default. As such the commenters recommend standardizing the minimum margin requirement for both collateral classes, at the rate of 102% of the borrowed securities. According to the commenters, such approach is consistent with market practices and would	We believe a collateral rate of 102% for non-cash collateral would be contrary to the existing rates used in determining excess collateral deficiency for traditional securities borrowing arrangements. The higher 105% collateral rate for non-cash collateral provides an additional buffer to address potential volatility in market value that may arise with non-cash collateral.

	Summary of Comments	CIRO response
	improve the operational efficiency while reducing the administrative burden for market participants. [CASLA, IIAC, NBF] One commenter suggested corresponding clarifications in Form 1, Part II – Schedule 1 Notes and Instructions, (7) Securities Borrow arrangements (iv) Margin Requirements: for securities borrow arrangements. [IIAC]	
Non-cash collateral holding arrangements [proposed clause 4624(5)(ii)]		
7.	One commenter asks CIRO to further elaborate the rationale for the restriction that non-cash collateral must be held via a collateral agent. More specifically, why clients are better protected under this collateral holding model, at a time that BIA recognizes other collateral holding arrangements so long as they meet the requirements necessary for such collateral to be allocated to the "customer pool" (which would give clients priority in the insolvency administration). [CASLA]	Considering the legal uncertainty surrounding BIA's treatment of non-cash collateral arrangements, compounded by the absence of legal precedent, we have adopted a more conservative approach with investor protection in mind. At the outset of FPL programs, we evaluated the client's recourse in the event of Dealer insolvency. We understand that BIA (the provisions of Part XII) could be interpreted to treat non-cash collateral differently from cash collateral and allocate the former to the "general fund" rather than the "customer pool". We also understand that the "street borrower" may have a competing claim with the client in the "customer pool". These risks are higher in instances where the borrowing Dealer holds the securities collateral for the benefit of the client rather than when transferring such collateral to the retail client, which is deemed operationally impractical when compared to institutional lending.

	Summary of Comments	CIRO response
		Holding the non-cash collateral away from the borrowing Dealer, in trust for the client by a third-party collateral agent, is deemed a risk mitigating strategy and one that we are more comfortable with at this time. We will continue to monitor developments in the jurisprudence around this matter and reevaluate our position accordingly.
Asset reuse prohibition [proposed section 4625 and guidance section 2.6]		
Hedging prohibition [proposed subsection 4625(1)]		
8.	One commenter requests us to revisit the hedging prohibition. They argue that a client's hedged economic exposure should not be affected simply because a portion of their assets are loaned through a FPL program, similar to rehypothecated margined securities. They provide an example of an offset based on subsections 5750(1)(ii) and (iii) involving index securities, to illustrate that the Dealer can rehypothecate securities where the client has a margin loan even if the securities are part of a hedge. They argue fully paid securities that are part of a hedging strategy should be treated the same as hedged securities covering a margin loan. If the client lends out a portion of their stocks, it would be deemed unhedged under the proposed rules, despite the client's overall economic exposure remaining unchanged, potentially leading to increased margin requirements. While the commenter acknowledges the	The intent of the proposed subsection 4625(1) is to prevent situations when the client lends out securities that are already rehypothecated as part of a hedging strategy. While not necessary, in view of the prerequisite that only segregated fully paid securities and excess margin can be lent out under Part B.2 of Rule 4600, we codified such a provision for added clarity. We understand that as drafted this provision could be interpreted broadly as to prohibit situations when the hedged securities are not rehypothecated but simply providing an economic hedge. There are no significant additional risks to clients if securities included in a fully paid lending arrangement are also part of an economic hedge. We agree that the client's economic exposure remains unchanged even if fully paid securities that are part of a hedge are included in the fully paid lending program. The client has no greater risk

	Summary of Comments	CIRO response
	regulatory purpose in seeking to mitigate risks from asset reuse, they consider the likelihood of such risks to be minimal given the current regulatory segregation regime. According to the commenter the prohibition, as proposed, could lead to increased margin requirements, reduced buying power, margin deficits, and forced positions liquidation for clients. To address this, they recommend changing proposed subsection 4625(1) to state that Dealers cannot rehypothecate loaned securities when these are and remain on loan under an FPL program. [IBC]	lending out hedged securities because the client can still recall the securities at any time. After closer consideration we propose to remove subsection 4625(1) entirely, to mitigate confusion, and instead further clarify in the guidance. We consider such a rule amendment to be immaterial.
Collateral reuse restriction [proposed subsection 4625(2)]		
9.	One commenter recommends that the collateral reuse restriction of the proposed subsection 4625(2) should apply only to prohibit the reuse of the same collateral for another transaction. The commenter also recommends permitting investment of cash collateral in overnight investments. [IIAC]	The intent of the proposed section 4625(2) is to prohibit the reuse of the same collateral for another transaction or any other purpose since this collateral should be held in trust for the client. Pursuant to the proposed clause 4624(5)(i), which codifies existing policy, Dealers must hold cash collateral in trust for the lending clients at an acceptable institution. This combined with the conditions around non-cash collateral arrangements [see response 4, above] would preclude a Dealer from investing cash in overnight investments, unless the Dealer is permitted to offer non-cash collateral in compliance with section 4624.
Recordkeeping [proposed section 4626 and guidance section 2.7]		

	Summary of Comments	CIRO response

10.	One commenter recommends adding in section 4626 provisions regarding collateral valuation reporting, such as for:
	• permitted debt securities collateral, the respective marked-to-market cash value may be reported;
	• inter-listed securities:
	  ○ the collateral may be maintained in one currency and reported to clients in another currency (including the used FX rate);
	  ○ the Dealer may determine market value, based on either market. [IIAC]
		We do not believe prescriptive requirements related to collateral valuation are required in this section since the reporting of collateral would be subject to our general rule requirements for reporting market value of securities.

Client communications [proposed section 4627 and guidance section 2.8]		
11.	Two commenters recommend eliminating the requirement for prompt confirmations and notices of loaned securities, loan termination and fee/rate changes, and instead consolidate these notifications within the monthly statement. According to the commenter, daily confirmation or notices have proven unhelpful to the client, while streamlining of client notifications within monthly statements is more in keeping with investor preferences and the Dealer need for reduced operational burden. [IIAC, NBF]	Providing clients with trade confirmations is a fundamental Dealer responsibility and a cornerstone of client protection. We believe that today's technological advancements enable communication efficiencies which can address information overload concerns. While we understand that fully paid lending transactions may create additional confirmations and notices to clients, it is crucial that clients be notified of these transactions as soon as they occur. Month-end notifications would not be timely enough notification for clients to identify discrepancies and mitigate errors or disputes. Section 4627 simply adds clarity to the trade confirmation requirements for

	Summary of Comments	CIRO response
		fully paid lending programs, while keeping with the existing trade confirmations requirements of section 3816, including the applicable exemptions.
Onboarding of portfolio managers and introducing brokers		
12.	Several commenters consider the current onboarding process, which requires prior confirmation from CIRO or the CSA before an introducing broker (IB) or portfolio manager (PM) can participate in FPL programs, to be complex and cumbersome. They argue that this non-objection process, which does not allow for automatic onboarding and at times can be lengthy and inconsistent, discourages investor participation and creates operational burden, particularly for smaller firms. One commenter highlighted that other jurisdiction, such as the US, UK, EEA, Hong Kong and Singapore, do not impose similar restrictions. [IIAC, CIFIC, NBF] The commenters advocate for a more predictable and expedited process which ultimately should enhance the client experience. They made the following recommendations: • registrants with leverage accounts and who are not subject to any early warning, should be able to offer FPL without notification requirements; • the guidance can stipulate the list of onboarding prerequisites as well as CIRO's and CSA's authority to	Consistent with CIRO rules and established practices, Dealers must notify CIRO before making any material change to their business activities [subsection 2246(2) of IDPC Rules]. We consider offering or engaging in fully paid lending for the first time to be a material change in business. The non-objection process for IBs to facilitate fully paid lending is less cumbersome than the approval process for the carrying broker who offers fully paid lending. We believe that fully paid lending should not be treated any differently from established practices, especially if we are to consider that such activity can be part of complex investment strategies and does not abide by one size fits all rules. IBs play a key facilitating role in the process, especially in terms of client eligibility and enrolment subject to the Dealers terms and conditions, and we want to ensure that they have proper processes in place to act in the client's best interest. Recent cases in the US concerning broker-dealer violations related to advertising and client enrolment in retail fully paid lending, underscore the importance of CIRO being able to properly and proactively vet and monitor all Dealers fully paid lending activity. We also believe that the client experience would not

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	place the registrant on hold if there are concerns following an audit.	be favorable if we are to establish a process whereby CIRO places a hold on FPL activity after the client actively engages in FPL.
CIRO's discretion		
13.	One commenter noted that the Proposed Amendments grant CIRO discretion in several areas that may result in material changes to a Dealer Member's FPL program and should be subject to public comment in accordance with Joint Rule Review Protocol. [IIAC] According to the commenter CIRO would have discretion to:	We believe there are circumstances that demand a more efficient, flexible, and swift response than the one afforded by the rules. This is why there are several areas in the rules where CIRO's staff is granted limited discretion over Dealer activity, to be exercised in a responsible and transparent manner when the interest of investors and the public necessitates such intervention. Below we address the more specific areas highlighted by the commenter.
	• Prescribe how segregated securities are held and how the amount/value of securities must be calculated (IDPC Rule subsection 4312(3));	• This is an existing requirement in our rules pertaining to asset segregation and one that is outside of the scope of the amendments.
	• Further restrict the securities that a Dealer can borrow, by publishing on the Corporation's website (proposed IDPC Rule subsections 4628(2) and (3);	• The securities eligibility restrictions which are currently in effect for approved Dealer FPL programs (as imposed by the Board in each FPL exemption and outlined in GN-4600-22-001) are based on thresholds that may need to be adjusted from time to time in response to changes in market conditions or justified industry demands. While we would consider the impact on Dealers before changing such thresholds, the alternative of hardcoding such

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		thresholds into the rules would make it more difficult for us to effectively respond to such needs. In consideration of the above, the proposed section 4628 embodies a more flexible approach. It sets out staff authority to impose securities eligibility restrictions (e.g. thresholds), including to adjust such restrictions, when it deems to be in the interest of the Dealer Member's clients and the public, to which we believe a Dealer's interest is also aligned. To clarify, CIRO's imposed restrictions under this section are intended to apply similarly to all Dealers engaging in fully paid lending and not on an individual basis.
	• Prescribe additional requirements or restrictions on the Dealer Member activity (proposed IDPC Rule section 4630).	• Future Dealer FPL programs may present unique features, not anticipated in the rules, which necessitate that we prescribe additional requirements or restrictions Having such authority enables CIRO to respond efficiently and swiftly to the needs of investors and industry.
Special audit report [proposed section 4629 and guidance section 2.14]		
14.	According to one commenter considering CIRO's regular audit functions and dealer internal audit resources, the requests for a special audit report should be limited to instances of dealer insolvency. [IIAC]	The special audit report is a mechanism to prevent errors in books and records or collateral segregation arising from inadequate policies and procedures, systems and controls. We believe requesting a special audit report at the time of insolvency would not be practical because if the Dealer

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	Another commenter recommended that Dealers with established FPL programs should have the flexibility to utilize their internal audit departments to fulfill the requirement for a special audit report. This way Dealers would mitigate unnecessary expenses associated with external audits who, as observed in practice, may not always have the specialized expertise in FPL programs and need to engage extra time and Dealer resources. [CIFIC]	Member is insolvent, it would be too late to resolve any inadequacies. We believe the rule as drafted would allow the Dealer to utilize their internal audit departments to complete a special audit report where the internal audit department is independent of the Dealer Member.
Transition		
15.	Two commenters request that rule changes affecting FPL programs significantly, such as the proposed collateral rates if adopted, should allow a minimum two-year transition period for existing FPL programs. [IIAC, NBF]	We believe a two-year transition period for implementation is excessive given the majority of the Proposed Amendments are significantly aligned with existing Dealer practices and existing fully paid lending terms and conditions imposed by us. We plan to align the implementation date with the expiry of the existing exemptions.
Question 1: Do you have any concerns with the proposed client differentiation approach whereby the retail client fully paid lending is subject to the more rigorous requirements of Part B.2. of Rule 4600, as opposed to the institutional client who can lend securities in accordance with traditional lending requirements?		
16.	Two commenters expressed concerns that the proposed approach does not consider the unique fiduciary relationship between portfolio managers (PMs) and their clients, which could hinder client access to FPL programs by imposing unnecessary direct client involvement. The amendments	Our proposal codifies existing policy, as outlined in GN-4600-22-001 and does not introduce new requirements. We deem client securities lending to have a different risk profile, structure, and transparency (client does not have the same visibility of what happens to their securities once lent out) in

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	would require borrowing Dealers to seek client instructions on loaned securities, sign loan agreements directly with clients, obtain from clients signed risk disclosures, and provide detailed transaction confirmations. While the commenters acknowledge the risks of FPL, they argue that the proposed requirements undermine the primary benefit of engaging a PM, who is best positioned to explain such risks to clients and alleviate them from managing transactional tasks. As such, the commenters advocate for exemptive relief from the above requirements for discretionary accounts. They propose that the loan agreements and risk disclosures should be included as addendums to the investment portfolio statements, allowing PMs to execute necessary documentation on behalf of clients and determine their loan risk tolerance, thus preserving the advantages of discretionary management. According to the commenters such an approach would preserve the benefits of discretionary management, maintain transparency, and allow PMs to adequately manage risks without overwhelming their clients with additional administrative burdens. [IIAC, NBF]	comparison to securities trading where PMs have authority over client trading. While the PM is an important facilitator in the transaction, ultimately it is the client who is exposed to the lending risks, including that of counterparty risk. For this reason, we are not considering allowing exceptions to the client disclosure and acknowledgement requirements for discretionary accounts. To clarify, the rules mandate the baseline responsibility for both the Dealer and PM to ensure that the client: ○ acknowledges in writing the risk disclosures; ○ signs the loan agreement(s); ○ is given the opportunity to exercise their right to impose lending restrictions; The rules, as drafted, do not mandate how the Dealer and PM should exercise such responsibility. They allow sufficient flexibility for the Dealer, and the PM in its facilitator role, to operationalize such requirements, in an efficient way without compromising the fundamental rights of a client.
Question 2: Should we allow the Dealer to borrow securities from their retail client other than equity securities that are listed on an exchange? Why yes or why not? If yes, also indicate the type/quality of the securities that should be allowed and the underlying reason; [Ref. proposed section 4828, guidance section 2.9 and Appendix F of Rules Bulletin 24-0067 (**Appendix F**)].		
17.	Commenters recommend that we broaden the type of securities eligible for lending under the FPL programs,	To ensure needed flexibility over the securities eligibility criteria, we decided not to codify the existing restrictions in

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	without necessitating CIRO's permission, so that these programs can better meet market demand and enhance retail investor opportunities. It is noted that excluding fixed-income securities from FPL programs can be a missed revenue opportunity for retail investors, given that these instruments constitute a significant portion of investors' portfolios. [CASLA, IIAC, NBF, WSII] Commenters recommend that all securities that meet the *Income Tax Act (RSC, 1985, c. 1(5th Supp.)* definition of a qualified security should be eligible for FPL. [IIAC, NBF, WSII] The discussed benefits of this approach include: • levelling the playing field between retail and traditional institutional lending and open more opportunities for the retail investor; • expanding the securities eligibility to include fixed income securities would correlate with the types of acceptable non-cash collateral and also align with the flexibility of other regulatory regimes (e.g. NI 81-102). [CASLA] One commenter recognizes CIRO's concern that market manipulation may increase if the types of securities being lent are not actively traded or not widely held, but they believe such risk is not significant given the relative size of the current fully paid securities lending market in Canada. According to the commenter, the industry and regulatory	the rules. At the same time, maintaining CIRO's authority over the criteria will enable us to better monitor the expansion of the FPL programs and their market impact. We believe the Income Tax Act definition of qualified security is too broad and the expansion of eligible securities should be a gradual approach that considers both market and client impacts. However, we agree that there may be a valid argument in broadening the current securities eligibility criteria, as prescribed in Appendix F, to also include debt securities. Staff will carry out an impact assessment and consult with other regulatory stakeholders on the merits of such an approach.

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	focus should be in preventing and detecting manipulative and deceptive activities, as per CIRO's policy, rather than limiting lending opportunities for retail investors. [WSII]	
Question 3: Have we identified all the proposed provisions that will materially impact clients, Dealer Members, or CIRO? If not, please list any other proposed provisions that you believe will materially impact one or more parties and why.		
18.	Commenters did not specifically respond to this question, but they provided detailed comments on the specific provisions they believed to be most impactful as described in the summary comments above.	We provided responses to the detailed comments above.
Question 4: Overall, do you agree with CIRO's qualitative assessment that the benefits of the Proposed Amendments are proportionate to their costs? Please provide reasons for your stance.		
19.	According to one commenter any changes to FPL programs give rise to 'domino considerations' and costs across an enterprise. In areas where concerns have been raised by the commenter, the benefits do not outweigh the costs. [IIAC]	We acknowledge the comment.