

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 <i>securities</i> borrow or a <i>securities</i> 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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RULE 4400 | PROTECTION OF CLIENT ASSETS – SAFEKEEPING CLIENT ASSETS, SAFEGUARDING CASH AND SECURITIES, AND INSURANCE

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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 <i>cash loan</i> , a <i>securities loan</i> , a <i>repurchase agreement</i> , or a <i>reverse repurchase agreement</i> .
“overnight cash loan agreement”	An oral or written <i>cash loan</i> agreement under which a <i>Dealer Member</i> deposits cash with another <i>Dealer Member</i> for up to two <i>business days</i> .
“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 <i>cash loan</i> or <i>securities loan</i> 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 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.~~
- (12) 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.
 - (23) 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 <i>security</i> that is: (i) convertible within 20 <i>business days</i> into another <i>security</i>, the <i>underlying security</i>, or (ii) convertible after the expiry of a specific period into another <i>security</i>, the <i>underlying security</i>, and the <i>Dealer Member</i> or client has entered into a term <i>securities</i> borrowing agreement, which includes the minimum agreement terms specified in subsection 4604(2), enabling a borrow of the <i>underlying security</i> for the entire period from the current date until the expiry of the specific period until conversion.
"currently exercisable"	A <i>security</i> that is exercisable into the <i>underlying security</i> : (i) exercisable within 20 <i>business days</i> into another <i>security</i>, the <i>underlying security</i>, or (ii) exercisable after the expiry of a specific period into another <i>security</i>, the <i>underlying security</i>, and the <i>Dealer Member</i> or client has entered into a term <i>securities</i> borrowing agreement, which includes the minimum agreement terms specified in subsection 4604(2), enabling a borrow of the <i>underlying security</i> 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 [.4](#) 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.

RULE 5900 | AGREEMENT RELATED MARGIN REQUIREMENTS

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 or 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.
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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		
<i>Cash loan</i> and <i>securities loan</i> agreements where cash is received or delivered to the <i>Dealer Member</i> , <i>repurchase agreement</i> , or <i>reverse repurchase agreement</i>	- the obligation to repurchase, resell or terminate the loan is outstanding for more than five <i>business days</i>, - the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction,	The minimum <i>Dealer Member inventory margin</i> required for any unhedged term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada <i>debt security</i> 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 <i>fixed rate</i>, and - the <i>Dealer Member</i> 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 <i>securities</i> 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		
<i>Cash loan</i> or <i>securities loan</i> agreement where cash is received or delivered to the <i>Dealer Member</i> , versus <i>cash loan</i> or <i>securities loan</i> or <i>Repurchase agreement</i> versus <i>reverse repurchase agreement</i>	- 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 <i>Dealer Member inventory margin</i> 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		
<i>Cash loan or securities loan</i> agreement where cash is received or delivered to the <i>Dealer Member</i>, versus <i>cash loan</i> or <i>securities loan</i> or <i>Repurchase agreement</i> versus <i>reverse repurchase agreement</i>	▪ 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 <i>Dealer Member inventory margin</i> required for any residual offset term risk shall be determined by multiplying: (i) the relevant margin rate for a Government of Canada <i>debt security</i> 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.