# Rule Consolidation Project – Phase 5 – DC Form 1

A blackline copy of the proposed DC Form 1 to the IDPC Form 1 follows:

Proposed amendments to CIRO Rules have been published for comments under CIRO Bulletin 24-0067 *Fully paid securities lending and financing arrangements.* We show how these proposed amendments, presented in grey boxes, will be brought into the DC Form 1 if approved in their current state, for awareness and context only.

#### Dealer Member's name

Date

		Updated
General notes c	nd definitions	Aug-2023 <u>xxx-</u>
		<u>xxxx</u>
Certificate of U	ltimate Designated Person (UDP) and Chief Financial Officer (CFO <u>) – Mutual Fund Dealer Members</u>	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
<u>Certificate of U</u>	ltimate Designated Person (UDP) and Chief Financial Officer (CFO) – Investment Dealer Members <sup>12</sup>	<u>xxx-xxxx</u>
Independent Au	uditor's Report for Statements A, <del>E</del> <u>D</u> and F <u>E</u> (at audit date only)	<del>Feb-2024<u>xxx-</u></del>
		<u>xxxx</u>
Independent Au	<u>iditor's Report for Statements B and C (at audit date only) – Mutual Fund Dealer Members</u>	<u>xxx-xxxx</u>
Independent Au	uditor's Report for Statements B, C and $\frac{DE}{2}$ (at audit date only) <u>– Investment Dealer Members <sup>1</sup></u>	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Part I		
Statement A	Statement of financial position	<del>Jan-2023<u>x</u>xx-</del>
		xxxx
Statement B	Statement of net allowable assets and risk adjusted capital	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Statement C	Statement of early warning excess and early warning reserve	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
<del>Statement D</del>	Statement of free credit segregation amount	<del>Jan-2023</del>
Statement <mark>ED</mark>	Statement of income and comprehensive income	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Statement <mark>F<u>E</u></mark>	Statement of changes in capital and retained earnings (corporations) or undivided profits	<del>Jan-2023<u>xxx-</u></del>
	(partnerships <u>) or fund balances (not-for-profit)</u>	<u>xxxx</u>
<u>Statement F</u>	Statement of free credit segregation amount – Investment Dealer Members <sup>1</sup>	<u>xxx-xxxx</u>
Notes to the Fo	rm 1 financial statements	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Part II <sup>±</sup>		
Agreed-upon P	rocedures Report on compliance for insurance and segregation of cash and investment products -	<u>xxx-xxxx</u>
Mutual Fund De	ealer Members	
Agreed-upon P	rocedures Report on compliance for insurance, segregation of securities <u>investment products</u> , and	<del>Feb-2024</del>
guarantee/guar	rantor relationships relied upon to reduce margin requirements during the year <u>- Investment Dealer</u>	<u>xxx-xxxx</u>
<u>Members <sup>2</sup></u>		
Schedule 1	Analysis of loans receivable, securities borrowed and resale agreements	<del>Jan-2023<u>xxx-</u></del>

<sup>&</sup>lt;sup>1</sup> Where a Mutual Fund Dealer Member decides to use client free credit cash balances within their operations, the Mutual Fund Dealer Member must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members', complete and file Statement F, and the auditors must file an audit opinion on Statements B, C and F.

<sup>&</sup>lt;sup>1</sup>-Schedules 3 and 8 have been removed.

<sup>&</sup>lt;sup>2</sup> Where a Mutual Fund Dealer Member decides to offer margin accounts, the Mutual Fund Dealer Member must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members', complete and file the appropriate client margin and concentration schedules, and the auditors must file the agreed-upon procedure report on compliance for insurance, segregation of investment products and guarantee/guarantor relationships relied upon to reduce margin requirements during the year – Investment Dealer Members'.

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Schedule 2	Analysis of securities owned and sold short at market value	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Schedule 2A	Margin for concentration in underwriting commitments	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Schedule 2B	Underwriting issues margined at less than the normal margin rates	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Schedule <u>4</u> 3	Analysis of clients' trading accounts <del>long and short<u>–</u> Mutual Fund Dealer Members</del>	<del>Mar-2023<u>xxx-</u></del>
		<u>xxxx</u>
Schedule 4	Analysis of clients' trading accounts- Investment Dealer Members	<u>xxx-xxxx</u>
Schedule <mark>4A<u>5</u></mark>	List of ten largest value <u>settlement</u> date trading balances with acceptable institutions and	<del>Jan-2023<u>xxx-</u></del>
	acceptable counterparties	<u>xxxx</u>
Schedule <del>5<u>6</u></del>	Analysis of brokers' and dealers' trading balances <u> – Mutual Fund Dealer Members</u>	<del>Jan-2023<u>xxx-</u></del>
		XXXX
<u>Schedule 7</u>	<u>Analysis of brokers' and dealers' trading balances – Investment Dealer Members</u>	<u>xxx-xxxx</u>
Schedule <del>6<u>8</u></del>	Income taxes	<del>Jan-2023<u>xxx-</u></del>
		XXXX
Schedule <mark>6<u>8</u>A</mark>	Tax recoveries	<del>Jan-2023<u>xxx-</u></del>
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Schedule <del>7<u>9</u></del>	Analysis of overdrafts, loans, securities loaned and repurchase agreements	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Schedule <mark>7<u>9</u>A</mark>	Cash and securities borrowing and lending arrangements concentration charge	Jan-2023 <u>xxx-</u>
Caba dula O		XXXX
Schedule 9	Concentration of securities	<del>Jan-2023</del>
Schedule 9A	Concentration of securities - General Security Test	<del>Jan-2023</del>
Schedule 9B	Concentration of securities - Debt Security Test	<del>Jan-2023</del>
Schedule 10	InsuranceConcentration of securities – Mutual Fund Dealer Members	<del>Jan-2023<u>xxx-</u></del>
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Schedule 10A	Concentration of securities - General Security Test - Mutual Fund Dealer Members	<u>xxx-xxxx</u>
Schedule 10B	<u>Concentration of securities - Debt Security Test – Mutual Fund Dealer Members</u>	<u>xxx-xxxx</u>
Schedule 11	<u>Concentration of securities – Investment Dealer Members</u>	<u>xxx-xxxx</u>
Schedule 11A	<u>Concentration of securities - General Security Test – Investment Dealer Members</u>	<u>xxx-xxxx</u>
Schedule 11B	<u>Concentration of securities - Debt Security Test – Investment Dealer Members</u>	<u>xxx-xxxx</u>
Schedule 12	Insurance	<u>xxx-xxxx</u>
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Schedule 11A	Details of unhedged foreign currencies calculation for individual currencies with margin required	<del>Jan-2023</del>
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Schedule 12	Margin on futures concentrations and deposits	<del>Jan-2023</del>
Schedule 13	Early warning tests - Level 1	<del>Jan-2023</del>
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	currencies with margin required greater than or equal to \$5,000 – Mutual Fund Dealer Members	<u>xxxx</u>
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	<u>greater than or equal to \$5,000 – Investment Dealer Members</u>	
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Schedule 16	<u>Early warning tests – Mutual Fund Dealer Members (Level 1, 2, and 3 Dealers)</u>	<u>xxx-xxxx</u>
Schedule 17	<u>Early warning tests - Level 1 – (for Investment Dealer Members and Level 4 Dealers)</u>	<u>xxx-xxxx</u>
Schedule 17A	Early warning tests - Level 2 - (for Investment Dealer Members and Level 4 Dealers)	<u>xxx-xxxx</u>
Schedule <del>15<u>18</u></del>	Supplementary information $\frac{23}{2}$	<del>Jan-2023<u>xxx-</u></del>
		<u>xxxx</u>
Schedule 19	Assets under administration information <sup>3</sup>	<u>xxx-xxxx</u>

<sup>23 &</sup>quot;Schedule 1518, Supplementary information", is and "Schedule 19, Assets under administration information" are not part of an audited Form 1 submission and the namenames of this these schedule will not appear in the "Table of contents" on the electronic or hardcopy version of an audited Form 1 submission.

#### Form 1 – General notes and definitions

(1) Each *Dealer Member* must comply with the requirements in Form 1 as approved and amended from time to time by the *Board*.

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the *Corporation*.

(2) Each Dealer Member must complete and file all of these the statements and schedules as listed in the tables below.

<del>(2</del>

<u>A Level 1, 2 and 3 Mutual Fund Dealer Member must complete and file the following statements and schedules with the</u> audited annual Form 1 and monthly financial report:

Annual Form 1	Monthly financial report
Statements A, B, C, D and E <sup>1</sup>	Statements A, B, C, and D
Schedules 1 and 2	Schedule 2
Schedules 3 and 5	Schedule 12
Schedules 6 and 8 to 10B	Schedule 16
Schedules 12 to 14	Schedule 18
Schedule 16	<u>Schedule 19 – Part A only</u>

<u>A Level 4 Mutual Fund Dealer Member must complete and file the following statements and schedules with the audited</u> annual Form 1 and monthly financial report:

Annual Form 1	Monthly financial report
Statements A, B, C, D and E <sup>1</sup>	Statements A, B, C, and D <sup>1</sup>
Schedules 1 and 2	Schedule 2
Schedules 3 <sup>2</sup> and 5	Schedule 12
Schedules 6 and 8 to 10B <sup>3</sup>	Schedule 17 and 17A
Schedules 12 to 14	Schedule 18
Schedule 17 and 17A	<u>Schedule 19 – Part A only</u>

<sup>1</sup>A Level 4 Mutual Fund Dealer Member that chooses to use client free credit cash in their operations must also file Statement F in the annual Form 1 and monthly financial report.

<sup>2</sup> A Level 4 Mutual Fund Dealer Member that offers client margin lending must file Schedule 4 in the annual Form 1, instead of Schedule 3, and file Schedule 4 Line 3(a) and 3(c) in the monthly financial report.

<sup>3</sup> A Level 4 Mutual Fund Dealer Member that offers client margin lending must file Schedule 11, 11A and 11B instead of Schedule 10, 10A and 10B in the annual Form 1.

<u>An Investment Dealer Member must complete and file the following statements and schedules with the audited annual</u> Form 1 and monthly financial report:

Annual Form 1	Monthly financial report
Statements A, B, C, D, E and F	Statements A, B, C, D and F
Schedules 1 to 2B	Schedule 2
Schedules 4 and 5	Schedule 4 – Line 3(a) and 3(c) only
Schedules 7 to 9A	Schedule 12
Schedules 11 to 15	Schedule 17 and 17A
Schedule 17 and 17A	Schedule 18 – Part A, B and C only
	<u>Schedule 19 – Part B only</u>

(3) The following are Form 1 IFRS departures as prescribed by the *Corporation*:

Matter	Prescribed IFRS departure
Client and broker trading balances	For client and broker trading balances, the <i>Corporation</i> allows the netting of receivables from and payables to the same counterparty. A <i>Dealer Member</i> may choose to report client
	and broker trading balances in accordance with IFRS.

# Form 1 - General notes and definitions (Continued)

Matter	Prescribed IFRS departure
Preferred shares	Preferred shares issued by the <i>Dealer Member</i> and approved by the <i>Corporation</i> are classified as shareholders' capital.
Presentation	Statements A and ED contain terms and classifications (such as allowable and non- allowable assets) that are not defined under IFRS. For Statement ED, the profit (loss) for the year on discontinued operations is presented on a pre-tax basis (as opposed to after- tax).
	In addition, specific balances may be classified or presented on Statements A, $\underline{FD}$ and $\underline{FE}$ in a manner that differs from IFRS requirements. The general notes and definitions, and the applicable notes and instructions to the Statements of Form 1, should be followed in those instances where departures from IFRS presentation exist.
	Statements B, C, and $\underline{PE}$ are supplementary financial information, which are not statements contemplated under IFRS.
Separate financial statements on a non- consolidated basis	Consolidation of <i>subsidiaries</i> is not permitted for regulatory reporting purposes, except for related companies that meet the definition of a " <i>related company</i> " in subsection 1201(2) of the Corporation Investment Dealer and Partially Consolidated Rules and the Corporation has approved the consolidation.
	Because Statement <u>ED</u> only reflects the operational results of the <i>Dealer Member</i> , a <i>Dealer Member</i> must not include the income (loss) of an investment accounted for by the equity method.
Statement of cash flow	A statement of cash flow is not required as part of Form 1.
Subordinated loan	For regulatory reporting purposes, a subordinated loan must be reported at face value. Discounting of the subordinated loan amount is not permitted.
Valuation	The Corporation requirements' "market value" definition differs from the IFRS "fair value" definition as it does not assume that all security, precious metals bullion and <i>futures contracts</i> positions have a value and it provides specific instructions on how to value positions in these different types of financial assets.

# (3<u>4</u>) The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

Matter	Prescribed accounting treatment
Hedge accounting	Hedge accounting is not permitted for regulatory reporting purposes. All security and <i>derivative</i> positions of a <i>Dealer Member</i> must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.
Securities owned and sold short as held-for-trading	A <i>Dealer Member</i> must categorize all inventory positions as held-for-trading financial instruments. These security positions must be marked-to-market. Because the <i>Corporation</i> does not permit the use of the available for sale and held-to- maturity categories, a <i>Dealer Member</i> must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.

Valuation of a subsidiary A Dealer Member must value subsidiaries at cost.	
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- (45) These statements and schedules are prepared in accordance with the Corporation requirements.
- (5<u>6</u>) For purposes of these statements and schedules, the accounts of related companies that meet the definition of a "*related company*" in subsection 1201(2) of the Corporation Investment Dealer and Partially Consolidated Rules may be consolidated.
- (6<u>7</u>) For the purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the notes and instructions to Form 1.
- (78) Dealer Members may determine margin deficiencies for clients, brokers and dealers on either a settlement date basis or trade date basis. Dealer Members may also determine margin deficiencies for acceptable institutions, acceptable counterparties, regulated entities and investment counselors' accounts as a block on either a settlement date basis or trade date basis and the remaining clients, brokers and dealer accounts on the other basis. In each case, Dealer Members must do so for all such accounts and consistently from period to period.
- (89) Comparative figures on all statements are only required at the audit date.
- (910) All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
- (1011) Supporting details should be provided as required showing breakdown of any significant amounts that have not been clearly described on the statements and schedules.
- (11<u>12</u>) Mandatory security count All *securities* except those held in *segregation* or *safekeeping* shall be counted once a month, or monthly on a cyclical basis. Those held in *segregation* and *safekeeping* must be counted once in the year in addition to the count as at the year-end audit date.
- (1213)Mandatory reconciliations Reconciliations must be performed monthly in addition to the year-end audit date between the Dealer Member's records and the records of the depository or custodian where the Dealer Member holds its own and client securities.
- (14) The following terms have the meanings set out when used in Form 1 and the Corporation requirements:

"acceptable clearing corporation"	Any clearing agency operating a central system for clearing of securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the clearing agency's powers of compliance and enforcement over its members or participants. The <i>Corporation</i> will maintain and regularly update a list of acceptable clearing corporations.	
"acceptable counterparty"	<ul> <li>An entity with whom a <i>Dealer Member</i> may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows:</li> <li>(i) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. <i>subordinated debt</i>) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection.</li> </ul>	
	(ii) Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is	

	available for inspection.
	(iii) Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
	<ul> <li>(iv) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over.</li> </ul>
	(v) Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million.
	(vi) Corporations (other than <i>regulated entities</i> ) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
	(vii) Trusts and limited partnerships (other than <i>regulated entities</i> ) with minimum total net assets on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such trust or limited partnership is available for inspection.
	(viii) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
	(ix) Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
	(x) Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection.
	(xi) Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
	(xii) Federal governments of foreign countries which do not qualify as a <i>Basel Accord country</i> .
	For the purposes of this definition, a satisfactory regulatory regime will be one within a <i>Basel Accord country</i> .
	Subsidiaries (excluding regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable counterparty may also be considered as an acceptable counterparty if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the Corporation.
"acceptable exchange"	An entity that:
	<ul> <li>(i) operates as an exchange for securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation,</li> </ul>
	(ii) if applicable, maintains and enforces adequate initial and ongoing listing requirements

# Form 1 – General notes and definitions (Continued)

	for at least one exchange market or market tier, and
	(iii) maintains and enforces (or contracts with a regulatory services provider to maintain and enforce) adequate trading requirements for at least one exchange market or market tier.
"acceptable institution"	An entity with which a <i>Dealer Member</i> is permitted to deal on an unsecured basis without capital penalty. The entities are as follows:
	(i) Government of Canada, the Bank of Canada and provincial governments.
	(ii) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
	(iii) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
	(iv) Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
	(v) Federal government of a <i>Basel Accord country</i> .
	(vi) Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
	(vii) Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
	(viii) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
	(ix) Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
	For the purposes of this definition, a satisfactory regulatory regime will be one within a Basel Accord country.
	Subsidiaries (other than regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable institution may also be considered as an acceptable institution if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the Corporation.

# Form 1 - General notes and definitions (Continued)

"acceptable securities location"	A location considered suitable to hold securities, precious metals bullion and other like asset on behalf of a Dealer Member, for both inventory and client positions, without capital penalty. To be suitable, the location must meet segregation and custody Corporation requirements including, but not limited to, the requirement for a written custody agreement. The written custody agreement must outline the terms under which securities are deposited and include the provisions that:set out in section 4353.
	the Dealer Member, and
	<ul> <li>the securities can be delivered to the <i>Dealer Member</i> promptly on demand.</li> <li>The entities with locations that are considered suitable are as follows:</li> </ul>
	(i) Depositories and Clearing Agencies
	Any securities depository or clearing agency operating a central system for handling securities or equivalent book-based entries or for clearing of securities or <i>derivatives</i> transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the securities depository's or clearing agency's powers o compliance and enforcement over its members or participants. The <i>Corporation</i> will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria.
	(ii) Acceptable institutions and subsidiaries of acceptable institutions that satisfy the following criteria:
	(a) Acceptable institutions which in their normal course of business offer custodial security services, or
	(b) Subsidiaries of acceptable institutions provided that each such subsidiary, together with the acceptable institution, has entered into a custodial agreement with the Dealer Member containing a legally enforceable indemnity by the acceptable institution in favour of the Dealer Member covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the Dealer Member and its clients at the subsidiary's location.
	(iii) Acceptable counterparties - with respect to security positions maintained as a book entry of securities issued by the acceptable counterparty and for which the acceptable counterparty is unconditionally responsible.
	(iv) Banks and trust companies otherwise classified as acceptable counterparties - with respect to securities for which they act as transfer agent and for which custody service are not being provided (in such case, a written custody agreement is not required).
	(v) Mutual Funds or their agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.
	(vi) Regulated entities.
	(vii) Foreign institutions and securities dealers that satisfy the following criteria:
	<ul> <li>(a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Canadian \$150 million as evidenced by the audited financial statements of such entity, provided that:</li> </ul>
	(I) a foreign custodian certificate has been completed and signed in the

# Form 1 – General notes and definitions (Continued)

	prescribed form by the <i>Dealer Member's</i> board of directors or authorized committee,
	(II) a formal application in respect of each such foreign location is made by the Dealer Member to the Corporation in the form of a letter enclosing the financial statements and certificate described above, and
	(III) the <i>Dealer Member</i> reviews each such foreign location annually and files a foreign custodian certificate with the <i>Corporation</i> annually.
	(viii) For London Bullion Market Association (LBMA) gold and silver good delivery bars, those entities considered suitable to hold these bars on behalf of a <i>Dealer Member</i> , for both inventory and client positions, without capital penalty must:
	(a) be a market making member, full member, or affiliate member of the LBMA,
	(b) be on the <i>Corporation's</i> list of entities considered suitable to hold LBMA gold and silver good delivery bars, and
	<ul> <li>(c) have executed a written precious metals storage agreement with the <i>Dealer</i> <i>Member</i>, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include provisions that no use or disposition of these bars shall be made without the written prior consent of the <i>Dealer Member</i>, and these bars can be delivered to the <i>Dealer Member</i> promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the <i>Dealer Member</i> as the standard securities custodial agreement.</li> </ul>
	(ix) Other locations which have been approved as an <i>acceptable securities location</i> by the <i>Corporation</i> .
"Basel Accord country"	A country that is a member of the Basel Accord and has adopted the banking and supervisory rules set out in the Basel Accord. (The Basel Accord, which includes the regulating authorities of major industrial countries acting under the auspices of the Bank for International Settlements (B.I.S.), has developed definitions and guidelines that have become accepted standards for capital adequacy.) A list of current <i>Basel Accord countries</i> is included in the most recent Domestic and Foreign Acceptable Institutions (AI) and Acceptable Counterparties (AC) database.
<u>"broad based</u>	An equity index in which:
index" <u>"diversified</u>	<del>(i) the</del>
investment product"	<u>A security whose underlier is a</u> basket of <i>equity securities</i> underlying the index <u>investment</u> <u>products</u> consists of thirty or more <del>securities</del> <u>products</u> , <u>where</u> ,
	(iii) the single largest basket <u>securityinvestment product</u> position by weighting comprises not more than 20% of the overall <i>market value</i> of the basket,
	(iii <u>ii)</u> the average market capitalization associated with <del>each security in the basket of<u>any</u> equity securities <u>underlyingin</u> the <u>indexbasket</u> is at least \$100 million,</del>
	(iviii) the basket securities shall be from a broad range of industries and market sectors as determined by the <i>Corporation</i> to represent index diversification, and
	(viv) the index constituentany equity securities in the basket are listed and traded on an acceptable exchange, and

# Form 1 - General notes and definitions (Continued)

"designated rating organization"	A credit rating organization, or its designated <i>affiliate</i> , or designated successor credit rating organization, that has been designated under securities laws. If the designation of a designated rating organization under securities laws is subject to terms and conditions that only recognize its credit ratings for certain purposes or certain asset classes, then any use of its credit ratings for the purposes of this definition is subject to the same terms and conditions, unless specified otherwise. Any reference to a particular rating category of a designated rating organization includes:
	(i) the corresponding rating category of another designated rating organization,
	(ii) where applicable, the corresponding rating category for short term debt, and
	(iii) a category that replaces that rating category.
"extended settlement date"	A transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.
<del>"market value"</del>	Means:
	(i) For securities, precious metals bullion and <i>futures contracts</i> quoted on an active market, the published price quotation using:
	(A) For listed securities, the last bid price of a long security and, correspondingly, the
	<del>last ask price of a short security, as shown on a consolidated pricing list or</del> exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be,
	(B) For unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date,
	(C) For all other unlisted securities (including unlisted debt securities) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of debt securities, based on a reasonable yield rate,
	(D) For futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date,
	(E) For money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date,
	(F) For money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (E) and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and
	(G) For money market repurchases with borrower call features, the borrower call price,
	and after making any adjustments considered by the <i>Dealer Member</i> to be necessary to accurately reflect the market value.
	(ii) Where a reliable price for the security, precious metals bullion or <i>futures contract</i> cannot be determined:

# Form 1 – General notes and definitions (Continued)

	<ul> <li>(A) The value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly, or</li> <li>(B) Where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or</li> <li>(C) Where insufficient recent information is available and/or there is a wide range of possible values and cost represents the best value estimate that range, cost.</li> <li>(iii) Where a value cannot be reliably determined under subsections (i) and (ii) above, the amount used:         <ul> <li>(A) to report the total market value of a Dealer Member securities position, and</li> <li>(B) to calculate the margin requirement for a client account securities position,</li> </ul> </li> </ul>
"regulated entity"	An entity with whom a <i>Dealer Member</i> may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entity is a <i>Dealer Member</i> or a securities dealer that is subject to adequate regulatory oversight by a regulator or self-regulatory organization equivalent to the <i>Corporation</i> .
	For the purposes of this definition, regulators and self-regulatory organizations with equivalent dealer regulatory oversight must meet the following criteria:
	(i) require its dealers to be member firms of the <i>Investor Protection Fund</i> ( <i>IPF</i> ) or of an investor protection regime that is equivalent to <i>IPF</i> ,
	<ul> <li>be a government agency or a self-regulatory organization subject to regulatory oversight reviews by a government agency,</li> </ul>
	(iii) require the segregation of customers' fully paid for securities by its regulated dealers,
	(iv) have rules that set out specific methodologies for the <i>segregation</i> of, or reserve for, customer credit balances,
	(v) have established rules regarding dealer and customer account margining,
	(vi) conduct regular examinations of its regulated dealers and monitor their regulatory capital on an ongoing basis, and
	(vii) require regular regulatory financial reporting by its regulated dealers.
	The regulators and self-regulatory organizations are determined at the discretion of the <i>Corporation</i> , as made available on the <i>Corporation</i> 's website.
"regular settlement date"	The settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 <i>business days</i> past trade date, settlement date will be deemed to be 15 <i>business days</i> past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.

## Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) – Mutual Fund Dealer Members

Mutual Fund Dealer Member's Name

We	We have examined the attached statements and schedules and certify that, to the best of our knowledge, they present fairly the				
fin	ancial position and capital of the Mutual Fund Dealer Member at and the results of operatio	<u>ns for the</u>			
pe	riod then ended, and are in agreement with the books of the Mutual Fund Dealer Member.				
We	e certify that the following information is true and correct to the best of our knowledge for the period from the last c	udit to the			
<u>da</u>	te of the attached statements, which have been prepared in accordance with the current Corporation requirements:				
		<u>Answer</u>			
<u>1.</u>	Does the Mutual Fund Dealer Member have adequate internal controls in accordance with the rules?				
2.	Does the Mutual Fund Dealer Member maintain adequate books and records in accordance with the rules?				
3.	Does the Mutual Fund Dealer Member monitor on a regular basis its adherence to early warning requirements				
	in accordance with the rules?				
<u>4.</u>	Does the Mutual Fund Dealer Member carry insurance of the type and in the amount required by the rules?				
5.	Does the Mutual Fund Dealer Member determine on a regular basis its segregation amount and act promptly				
	to segregate assets as appropriate in accordance with the rules?				
<u>6.</u>	Does the Mutual Fund Dealer Member promptly segregate clients' cash and securities in accordance with the				
	<u>rules?</u>				
7.	Does the Mutual Fund Dealer Member perform regular reconciliations of its trust accounts in accordance with				
	the rules?				
8.	Does the Mutual Fund Dealer Member perform regular reconciliations of its transactions with fund company				
	and other financial institution records in accordance with the rules?				
<u>9.</u>	Have all "concentrations of securities" been identified on Schedule 10?				
<u>Do 1</u>	the attached statements fully disclose all assets and liabilities including the following:				
<u>10.</u>	All future purchase and sales commitments?				
<u>11.</u>	Writs issued against the Mutual Fund Dealer Member or partners or any other litigation pending?				
<u>12.</u>	Income tax arrears?				
<u>13.</u>	Other contingent liabilities, guarantees, accommodation endorsements or commitments affecting the financial				
	position of the Mutual Fund Dealer Member?				

Ultimate Designated Person

Chief Financial Officer

Other Executive, if applicable

See notes and instructions

Date

Date

Date

## Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) – Investment Dealer <u>Members</u>

Investment Dealer Member's Name

We have examined the attached statements and schedules and certify that, to the best of our knowledge, they present fairly the financial position and capital of the <u>Investment</u> Dealer Member at \_\_\_\_\_\_ and the results of operations for the period then ended, and are in agreement with the books of the <u>Investment</u> Dealer Member.

We certify that the following information is true and correct to the best of our knowledge for the period from the last audit to the date of the attached statements, which have been prepared in accordance with the current *Corporation requirements*:

		Answer
1.	Does the Investment Dealer Member have adequate internal controls in accordance with the rules?	
2.	Does the Investment Dealer Member maintain adequate books and records in accordance with the rules?	
3.	Does the <u>Investment</u> Dealer Member monitor on a regular basis its adherence to early warning requirements in accordance with the rules?	
4.	Does the <u>Investment</u> Dealer Member carry insurance of the type and in the amount required by the rules?	
5.	Does the <u>Investment</u> Dealer Member determine on a regular basis its free credit segregation amount and act promptly to segregate assets as appropriate in accordance with the rules?	
6.	Does the Investment_Dealer Member promptly segregate clients' securities in accordance with the rules?	
7.	Does the <u>Investment</u> Dealer Member follow the minimum required policies and procedures relating to security counts?	
8.	Have all "concentrations of securities" been identified on Schedule 9 <u>11</u> ?	
Do	the attached statements fully disclose all assets and liabilities including the following:	
9.	Participation in any underwriting or other agreement subject to future demands?	
10.	Outstanding puts, calls or other options?	
11.	All future purchase and sales commitments?	
12.	Writs issued against the Investment Dealer Member or partners or any other litigation pending?	
13.	Income tax arrears?	
14.	Other contingent liabilities, <i>guarantees</i> , accommodation endorsements or commitments affecting the financial position of the <u>Investment_Dealer Member?</u>	

Ultimate Designated Person

**Chief Financial Officer** 

Other Executive, if applicable

Date

Date

Date

A ... . . . . . . .

# Form 1 – Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) Notes and instructions

<del>(1</del>

- (1) If a Mutual Fund Dealer Member chooses to offer margin to its clients under subsection 5112(2) or use client free credit balances in its operations under subsection 4382(2), the Mutual Fund Dealer Member must respond to the questions on the 'Certificate of UDP and CFO - Investment Dealer Members' and submit this version of the certificate with the audited annual Form 1.
- (2) Details must be given for any "no" answers.
- (23) To be signed by:
  - (i) Ultimate Designated Person (UDP),
  - (ii) Chief Financial Officer (CFO), and
  - (iii) at least one other *Executive* if the UDP and CFO are the same person.

Where there is only one individual that meets the qualifications of the positions listed above, this individual must sign the <u>certificate.</u>

#### Independent Auditor's Report for Statements A, **ED** and **FE**

To: \_\_\_\_\_\_ <name of Self-Regulatory Organization> and \_\_\_\_\_\_ <name of Investor Protection Fund>

#### Opinion

We have audited the Statements of Form 1 of \_\_\_\_\_\_\_\_, which comprise of:

- Statement A Statements of financial position as at <u><date></u> and <u><date></u>,
- Statement <u>ED</u> Statements of income and comprehensive income for the years ended <u><date></u> and <u><date></u>,
- Statement FE Statements of changes in capital for the year ended <u>\_\_\_\_\_\_</u>, and changes in retained earnings (or undivided profits) for the years ended <u>\_\_\_\_\_\_</u> and <u>\_\_\_\_\_</u>, and notes to the Statements, including material accounting policy information (collectively referred to as the Statements).

In our opinion, the accompanying Statements present fairly, in all material respects the financial position of the Dealer Member as

at <u>\_\_\_\_\_\_\_</u> and <u>\_\_\_\_\_\_\_</u>, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <u>\_\_\_\_\_\_</u> <u>\_\_\_\_</u> <u>\_\_\_\_</u>

#### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter – Basis of accounting

We draw attention to note <u>\_\_\_\_\_\_</u> to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <u><name of Self-Regulatory Organization></u>. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

#### Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

#### Other matter – Unaudited information

We have not audited the information in Schedules <u>1316, 17</u> and <u>1317</u>A of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

#### Other matter - Restriction on use (Optional wording to either be removed or customized by audit firms)

#### Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation and fair presentation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <u>\_<name of Self-Regulatory Organization></u>, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

#### Independent Auditor's Report for Statements A, ED and FE (Continued)

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

#### Auditor's responsibilities for the audit of the Statements

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform
  audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for
  our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,
  as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the Statements, including the disclosures, and whether the Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

#### Independent Auditor's Report for Statement B and C - Mutual Fund Dealer Members

To: <name of Self-Regulatory Organization> and <name of Investor Protection Fund>

#### **Opinion**

We have audited the Statements of Form 1 of <a href="https://www.englishingtons.com">which comprise of:</a> , which comprise of:

Statement B - Statements of net allowable assets and risk adjusted capital as at <date> and <date>

 In our opinion, the accompanying Statement B as at
 <date>
 and
 <date>
 and Statement C as at

 are prepared, in all material respects, in accordance with the financial reporting provisions of the notes

 and instructions to Form 1 prescribed by
 <name of Self-Regulatory Organization>
 .

#### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Statements section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter – Basis of accounting

We draw attention to note <note> to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <name of Self-Regulatory Organization> . As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

#### Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note <note> in the Statements which indicates that (insert key events and conditions that resulted in the material uncertainty). As stated in note <note> in the Statements, these events and conditions, along with other matters as set forth in note <note> in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Other matter – Unaudited information

<u>We have not audited the information in Schedules 16, 17A and 17B of Part II of Form 1 and accordingly, do not express an</u> <u>opinion on these schedules.</u>

#### Other matter - Restriction on use (Optional wording to either be removed or customized by audit firms)

 Our report is intended solely for the Dealer Member,
 <name of Self-Regulatory Organization>
 and
 <name of Investor Protection</td>

 Fund>
 and should not be used by parties other than the Dealer Member,
 <name of Self-Regulatory Organization>
 and

 <name of Investor Protection Fund>
 .

#### Responsibilities of management and those charged with governance for the Statements

Management is responsible for the preparation of the Statements in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <a href="https://www.name.org.nization">name.org.</a>, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

#### Auditor's responsibilities for the audit of the Statements

<u>Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material</u> misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a

#### Independent Auditor's Report for Statement B and C - Mutual Fund Dealer Members (Continued)

high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

<u>As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and</u> <u>maintain professional skepticism throughout the audit. We also:</u>

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal <u>control.</u>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

<u>Audit firm</u>

Signature of the name of the audit firm

Auditor address

Date

#### Independent Auditor's Report for Statement B, C, and <del>DF - Investment Dealer Members</del>

To: \_\_\_\_\_\_\_ <name of Self-Regulatory Organization> \_\_\_\_\_ and \_\_\_\_\_ <name of Investor Protection Fund>

#### Opinion

- Statement D E Statements of free credit segregation amount as at \_\_\_\_\_(collectively referred to as the Statements).

In our opinion, the accompanying Statement B as at \_\_\_\_\_\_ and \_\_\_\_\_\_, Statement C and  $\underline{PE}$  as at \_\_\_\_\_\_ are prepared, in all material respects, in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by \_\_\_\_\_\_ (name of Self-Regulatory Organization) \_\_\_\_\_\_.

#### **Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statements* section of our report. We are independent of the Dealer Member in accordance with the ethical requirements that are relevant to our audit of the Statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter – Basis of accounting

We draw attention to note <u><note></u> to the Statements which describes the basis of accounting.

The Statements are prepared to assist the Dealer Member in complying with the financial reporting provisions of the notes and instructions to Form 1 prescribed by <u><name of Self-Regulatory Organization></u>. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

#### Material uncertainty related to going concern (Optional wording to either be removed or customized by respective audit firms)

We draw attention to note <u><note></u> in the Statements which indicates that (insert key events and conditions that resulted in the material uncertainty). As stated in note <u><note></u> in the Statements, these events and conditions, along with other matters as set forth in note <u><note></u> in the Statements, indicate that a material uncertainty exists that may cast significant doubt on the Dealer Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Other matter - Unaudited information

We have not audited the information in Schedules <u>1316, 17</u> and <u>1317</u>A of Part II of Form 1 and accordingly, do not express an opinion on these schedules.

#### Other matter - Restriction on use (Optional wording to either be removed or customized by audit firms)

#### Responsibilities of management and those charged with governance for the Statements

In preparing the Statements, management is responsible for assessing the Dealer Member's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Dealer Member or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Dealer Member's financial reporting process.

#### Auditor's responsibilities for the audit of the Statements

#### Independent Auditor's Report for Statement B, C, and DF - Investment Dealer Members (Continued)

Our objectives are to obtain reasonable assurance about whether the Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dealer Member's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Dealer Member to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Audit firm

Signature of the name of the audit firm

Auditor address

Date

# Form 1 – Independent Auditor's Reports Notes and instructions

- (1) A measure of uniformity in the form of the auditor's reports is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their reports should take the form of the auditor's reports shown above.
- (2) The auditor report form for Statement A, D and E is applicable for both Mutual Fund Dealer Members and Investment Dealer Members. The auditor report form for Statements B and C is applicable for Mutual Fund Dealer Members that do not use client free credit balances in their operations. The audit report form for Statements B, C and F is applicable to Investment Dealer Members and those Mutual Fund Dealer Members that choose to use client free credit balances in their operations under subsection 4382(2).
- (3) Any limitations in the scope of the audit must be discussed in advance with the *Corporation*. Discretionary scope limitations will not be accepted. Any other potential emphasis of matter and other matter paragraphs in the auditor's reports must be discussed in advance with the *Corporation*.

Dealer Member's name

# Statement of financial position

at					
		Reference	Notes	Current year C\$000's	Previous year C\$000's
Liquid	nssets				
1.	Cash on deposit with acceptable institutions				
2.	Funds <u>Client funds</u> deposited in trust for RRSP and other similar accounts with acceptable institutions				
3.	Cash, held in trust with <i>acceptable institutions,</i> due to free credit ratio calculation	Stmt. <del>D<u>E</u></del>			
4.	Variable base deposits and margin deposits with acceptable clearing corporations [cash balances only]				
5.	Margin deposits with <i>regulated entities</i> [cash balances only]				
6.	Loans receivable, securities borrowed and resold	Sch. 1			
7.	Securities owned - at market value	Sch. 2			
8.	Securities owned and segregated due to free credit ratio calculation	Sch. 2			
9.	Client accounts	<u>Sch. 3/</u> Sch. 4			
10.	Brokers and dealers trading balances	Sch. <u><del>5</del>6/</u> <u>Sch.7</u>			
11.	Receivable from <u>introducing or</u> carrying broker- <del>or</del> <del>mutual fund</del>				
<u>12.</u>	Receivable from mutual fund				
<del>12.<u>13.</u></del>	Total liquid assets				
Other c	Illowable assets (receivables from acceptable insti	itutions)			
<del>13.<u>14.</u></del>	Current income tax assets	Sch. <u>68</u>			
<del>14.<u>15.</u></del>	Recoverable and overpaid taxes				
<del>15.<u>16.</u></del>	Commissions and fees receivable				
<del>16.<u>17.</u></del>	Interest and dividends receivable				
<del>17.<u>18.</u></del>	Other receivables [provide details]				
<del>18.<u>19.</u></del>	Total other allowable assets				
<u>20.</u>	Total allowable assets [Line 13 plus Line 19]				
Non-al	lowable assets				
<del>19.<u>21.</u></del>	Other deposits with acceptable clearing corporations				
	[cash or market value of securities lodged]				
<del>20.<u>22.</u></del>	Deposits and other balances with non-acceptable clearing corporations [cash or <i>market value</i> of securities lodged]				

# Form 1, Part 1 – Statement A (Continued)

<del>21.<u>23.</u></del>	Commissions and fees receivable			 
<del>22.<u>24.</u></del>	Interest and dividends receivable			 
<del>23.<u>25.</u></del>	Deferred tax assets			 
<del>24.<u>26.</u></del>	Intangible assets			 
<del>25.<u>27.</u></del>	Property, plant and equipment			 
<del>26.<u>28.</u></del>	Investments in subsidiaries and affiliates			 
<del>27.<u>29.</u></del>	Advances to subsidiaries and affiliates			 
<del>28.<u>30.</u></del>	Other assets [provide details]			 
<del>29.<u>31.</u></del>	Total non-allowable assets			 
<del>30.<u>32.</u></del>	Finance lease assets			 
<del>31.<u>33.</u></del>	Total assets			 
Current	liabilities			
<u>51.</u>	Bank overdrafts			
<del>51.52.</del>	Overdrafts, loans Loans payable, securities loaned	Sch. <del>7</del> 9		 
	and repurchases	-		 
<del>52.<u>53.</u></del>	Securities sold short - at market value	Sch. 2		 
<del>53.<u>54.</u></del>	Client accounts	<u>Sch. 3 /</u> Sch. 4		
<del>54.<u>55.</u></del>	Brokers and dealers <u>trading balances</u>	Sch. <del>5</del> 6 /		 
J4. <u>JJ.</u>	blokers and dealers <u>trading balances</u>	<u>Sch. 7</u>		 
<u>56.</u>	Payable to introducing or carrying broker			 
<del>55.<u>57.</u></del>	Provisions			 
<del>56.<u>58.</u></del>	Current income tax liabilities	Sch. <del>6<u>8</u></del>		 
<u>59.</u>	Variable compensation payable			 
<del>57.<u>60.</u></del>	Bonuses payable			 
<del>58.<u>61.</u></del>	Accounts payable and accrued expenses			 
<del>59.<u>62.</u></del>	Finance leases and lease-related liabilities			 
<del>60.<u>63.</u></del>	Other current liabilities [provide details]			 
<del>61.<u>64.</u></del>	Total current liabilities			 
Non-cu	rrent liabilities			
<del>62.<u>65.</u></del>	Provisions			
	Deferred tax liabilities			 
<del>64.67.</del>	Finance leases and lease-related liabilities			 
<del>65.<u>68.</u></del>	Other non-current liabilities [provide details]			 
<del>66.<u>69.</u></del>	Subordinated loans			 
<del>67.</del> 70.	Total non-current liabilities			 
<del>68.</del> 71.	Total liabilities [Line 6164 plus Line 6770]			 
Capital	and reserves			
<del>69.<u>72.</u></del>	Issued capital	Stmt. <del>F<u>E</u></del>		 
<del>70.<u>73.</u></del>	Reserves	Stmt. <del>F<u>E</u></del>		 
<del>71.<u>74.</u></del>	Retained earnings or undivided profits <u>or fund</u> balances	Stmt. <mark>F<u>E</u></mark>		 
<del>72.<u>75.</u></del>	Total capital		_	 
<del>73.<u>76.</u></del>	Total liabilities and capital [Line 68 <u>71</u> plus Line 72 <u>75]</u>			

# Form 1, Part I – Statement A Notes and instructions

- (1) Dealer Members are required to use the accrual basis of accounting.
- (2) Line 2 The trustee For Mutual Fund Dealer Members, include reconciled client cash balances in trust accounts that are held at a Canadian financial institution qualifying as an acceptable institution. For Investment Dealer Members, include client cash balances deposited in trust for RRSP or and other similar accounts must qualifyat a Canadian financial institution qualifying as an acceptable institution.

Such <u>trust</u> accounts must be insured by the Canada Deposit Insurance Corporation (CDIC) or Autorité des marchés financiers (AMF) to the full extent insurance is available. If not, then the *Dealer Member* must report 100% of the balance held in trust as non-allowable assets on Line 2830 (Non-allowable assets – other assets).

RRSP and other similar balances held at such trustee, but for which CDIC or the AMF insurance is not available, such as foreign currency accounts, can be classified as allowable assets.

The name of the RRSP trustee used by the Dealer Member must also be provided on <u>Schedule 3 or</u> Schedule 4.

- (3) Line 4 Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line <u>1113</u> of Schedule 2.
- (4) Line 5 Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line <u>1113</u> of Schedule 2.
- (5) Line 11 For an introducing broker (pursuant to an approved introducing/carrying broker agreement), include unsecured balances receivable from itsthe carrying broker, such as gross commissions and deposits in the form of cash, should be reported on this line. Unsecured balances should only be included to the extent they are not being used by the carrying broker to reduce client margin requirements.

For a carrying broker (pursuant to an approved introducing/carrying broker agreement), include unsecured balances receivable from the introducing broker, such as service fees.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line <u>1113</u> of Schedule 2.

- (6) Line 12 In the case of the salespersonRegistered Representative's portion of gross commissions and fees receivable, as recorded on Line 21 (Commissions and fees receivable), to the extent that there is written documentation that the broker does not have a liability to pay the salespersonRegistered Representative's commission until it is received, the salespersonRegistered Representative's portion of the gross commission receivable is an allowable asset.
- (7) (6) Line 1314 Include only overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid.
- (8) (7) Line 1415 Include the recoverable portion of capital tax, Part VI tax, property taxes and any federal or provincial sales taxes.

Include only to extent receivable from acceptable institutions.

(9) (8) Line 1819 - Allowable assets are those assets which due to their nature, location or source are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

Include only to extent receivable from acceptable institutions.

- (10) (9) Line 1921 Report the cash and *market value* of securities lodged with *acceptable clearing corporations* that represent fixed base deposits.
- (11) (10) Line 2022 To the extent receivable from other than acceptable clearing corporations, include all deposits whether margin deposits or variable and fixed base deposits.
- (12) (11) Line 2123 To the extent receivable from parties other than acceptable institutions.
- (13) (12)-Line 2224 To the extent receivable from parties other than acceptable institutions.
- (14) (13) Line 2426 Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.
- (15) (14) Line 2628 Investments in subsidiaries and affiliates must be valued at cost.

#### Form 1, Part I – Statement A

#### Notes and instructions (Continued)

- (1516) Line 2729 A Dealer Member must report non-trading inter-company receivables on a gross basis unless the criteria for netting are met.
- (1617) Line 2830 Including but not limited to such items as:
  - advances to employees (gross)
  - cash on deposit with non-acceptable institutions
  - cash surrender value of life insurance
  - other receivables from other than acceptable institutions
  - prepaid expenses
  - provincial contingency/fund deposits
- (1718) Line 2931 Non-allowable assets mean those assets that do not qualify as allowable assets.
- (1819) Line 3032 Assets arising from a finance lease (also known as a capitalized lease).
- (1920) Line 51 Overdrawn operating cash balances.
- (21) Line 56 For an introducing broker (pursuant to an approved introducing/carrying broker agreement), include amounts payable to the carrying broker by the introducing broker.

For a carrying broker (pursuant to an approved introducing/carrying broker agreement), include amounts payable to the introducing broker by the carrying broker.

- (22) Line 5557 Recognize a liability to cover specific expenditures relating to legal and constructive obligations. A *Dealer* Member cannot hold provisions as a general reserve to be applied against some other unrelated expenditure.
- (20)23) Line 59 Includes sales commissions and trailer fees owing to salespersons.
- (24) Line 5760 Include discretionary bonuses payable and bonuses payable to shareholders in accordance with share ownership.
- (2125) Line 6063 Include unclaimed dividends and interest and current liabilities to subsidiaries and affiliates.
- (26) Line 68 Include non-current liabilities to subsidiaries and affiliates.
- (2227) Line 6669 Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to the *Corporation*, obtained from a *chartered bank* or any other lending institution, *industry investor* approved as such by the *Corporation*, or non-industry investor subject to the *Corporation*'s approval, the payment of which is deferred in favor of other creditors and is subject to regulatory approval.

A *Dealer Member* must not pay a debt owed to any of its creditors contrary to any subordination or other agreement to which it and the *Corporation* are parties.

- (2328) Line 7073 Reserve is an amount set aside for future use, expense, loss or claim in accordance with statute or regulation. It includes an amount appropriated from retained earnings in accordance with statute or regulation. It also includes accumulated other comprehensive income (OCI).
- (24<u>29</u>) Line 71 Retained earnings represent 74 The amount on this line represents the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits. For a Dealer Member structured as a corporation, this amount is referred to as retained earnings. For a Dealer Member structured as a partnership, this amount is referred to as undivided profits. For a Dealer Member structured as a not-forprofit organization, this amount is referred to as fund balances.

Dealer Member's name

# Statement of net allowable assets and risk adjusted capital

at \_\_\_\_\_

		Reference	Notes	Current year C\$000's	Previous year C\$000's
1.	Total capital	A- <del>72<u>75</u></del>			
2.	Add: Non-refundable leasehold inducements				
3.	Add: Subordinated loans	A- <mark>66</mark> 69			
<u>3b.</u>	<u>Add: Non-current liabilities phase out adjustment (mutual fund dealers)</u>				
<u>4.</u>	Deduct: Externally restricted fund balances (For NFP only)				
4. <u>5.</u>	Regulatory financial statement capital [Sum of <del>Line<u>Lines</u> 1 to 3<u>b</u> minus Line 4]</del>				
<del>5.<u>6.</u></del>	Deduct: Total non-allowable assets	A- <del>29<u>31</u></del>			
<del>6.<u>7.</u></del>	Net allowable assets [Line 45 minus Line 56]				
<del>7.<u>8.</u></del>	Deduct: Minimum capital				
<del>8.<u>9.</u></del>	Subtotal [Line 6 <u>7</u> minus Line 7 <u>8</u> ]				
Deduc	t - Margin required:				
<del>9.<u>10.</u></del>	Loans receivable, securities borrowed and resold	Sch.1			
<del>10.<u>11.</u></del>	Securities owned and sold short	Sch.2			
<del>11.<u>12.</u></del>	Underwriting concentration	Sch.2A			
<del>12.<u>13.</u></del>	Client accounts	Sch. <u>3/Sch.</u> 4			
<del>13.<u>14.</u></del>	Brokers and dealers	Sch. <del>5<u>6/Sch.</u></del>			
1415	Leave and remuncheres	<u>7</u> Sch. <del>79</del>			
<u>14.15.</u>	1	3011.7 <u>9</u>			
<del>15.<u>16.</u> 16.17</del>		Sch 1012			
<del>16.<u>17.</u></del>	Financial Institution Bond deductible [greatest under any clause]	Sch. <del>10<u>12</u></del>			
<del>17.<u>18.</u></del>	Unhedged foreign currencies	Sch. <del>11<u>13</u></del>			
<del>18.</del>	Futures contracts	Sch.12			
19.	Provider of capital concentration charge	Sch.14			
<u>19b.</u>	Provider of capital concentration charge phase in adjustment (mutual fund dealers)				
<u>20.</u>	Futures contracts	<u>Sch.15</u>			
<del>20.<u>21.</u></del>	Securities held at non-acceptable securities locations				
<u>22.</u>	<u>Client cash not segregated in trust</u>				
<del>21.<u>23.</u></del>	Acceptable counterparties financing activities concentration charge	Sch. <del>7</del> <u>9</u> A			
<del>22.<u>24.</u></del>	Unresolved differences [provide details]				
<del>23.<u>25.</u></del>	Other [provide details]				
<del>24.<u>26.</u></del>	Total margin required [Sum of Lines 9 <u>10</u> to <del>23</del> 25]				

# Form 1, Part I – Statement B (Continued)

<del>25.<u>27.</u></del>	Subtotal [Line 89 less Line 2426]			
<del>26.<u>28.</u></del>	Add: Applicable tax recoveries	Sch. <mark>6<u>8</u>A</mark>	 	
<del>27.<u>29.</u></del>	Risk adjusted capital before securities concentration charge			
	[Line <del>25<u>27</u> plus Line <u>2628</u>]</del>			
<del>28.<u>30.</u></del>	Deduct: Securities concentration charge of	Sch. <u>910/Sch</u> .11		
	less tax recoveries of	Sch. <del>6<u>8</u>A</del>	 	
<del>29.<u>31.</u></del>	Risk adjusted capital [Line 2729 less Line 2830]			

See notes and instructions

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Dealer Member's name

Date

## Statement B – Line 2224: Details of unresolved differences

		Reconciled as at	Number of Items	Debit/short value	Number of items	Credit/long value	Required to
		report date (Yes/No)	Number of items	(Potential losses)	Number of items	(Potential gains)	margin
(a)	Clearing						
(b)	Brokers and dealers						
(c)	Bank <u>and trust</u> accounts						
(d)	Intercompany accounts						
(e)	Mutual funds <u>– nominee</u>						
	accounts						
(f)	Security counts						
(g)	Other unreconciled differences						
Tot	Total						

<del>B- 22<u></u>B-24</del>

# Form 1, Part 1 – Statement B Notes and instructions

#### (1) Capital adequacy

A Dealer Member must have and maintain at all times risk adjusted capital in an amount not less than zero.

#### (2) Netting for margin calculation

When applying *Corporation requirements* for margin rules, a *Dealer Member* can net allowable assets and liabilities as well as security positions. Except where there is a prescribed IFRS departure, netting is for regulatory margin purposes only (and not for presentation purposes).

#### (3) Line 2 – Non-current liability - non-refundable leasehold inducements

In those cases where it can be demonstrated that the leasehold inducement presents no additional liability to the *Dealer Member* (i.e. the *Dealer Member* does not "owe" the unamortized portion of the inducement back to the landlord, thereby qualifying the landlord as a creditor of the *Dealer Member*), the non-current portion of the lease liability for leasehold inducements can be reported as an adjustment to *risk adjusted capital*.

<del>(</del>4

#### (4) Line 3b – Non-current liabilities phase out adjustment

<u>A Mutual Fund Dealer Member that reported non-current liabilities on their final MFD Form 1 before implementation of the DC Form 1 (Pre-DC Form 1 non-current liabilities) may add back a portion of these non-current liabilities when determining the net allowable assets during the transitionary period following the implementation of the Dealer and Consolidated Rules. On Line 3b the Mutual Fund Dealer Member should report the lesser of:</u>

# (i) the amount that equals the Pre-DC Form 1 non-current liabilities multiplied by the phase out percentage in the chart below:

Period following DC Rule Implementation	Phase out percentage
<u>1<sup>st</sup> year</u>	<u>90%</u>
2 <sup>nd</sup> and 3 <sup>rd</sup> year	<u>80%</u>
4 <sup>th</sup> and 5 <sup>th</sup> year	<u>50%</u>
<u>6<sup>th</sup> year</u>	<u>0%</u>

#### and

(ii) the current total non-current liabilities, excluding subordinated debt, reported on Statement A (Lines 65 to 68).

#### (5) Line 4 – Externally restricted fund balances

<u>For Dealer Members that are structured as a not-for-profit (NFP), any fund balances that are restricted by an external</u> party, other than the *Corporation*, must be deducted from *risk adjusted capital*.

#### (6) Line 78 – Minimum capital

"Minimum capital" is \$250,000 except for a Type 1 introducing broker. For a Type 1 introducing broker

For Mutual Fund Dealer Members, the minimum capital amount is:

<u>\$25,000</u>	for a firm designated as a Level 1 Dealer			
<u>\$50,000</u>	for a firm designated as a Level 2 Dealer that is not registered as an			
	investment fund manager under securities laws			
<u>\$75,000</u>	for a firm designated as a Level 3 Dealer that is not registered as an investment fund manager under securities laws			
<u>\$100,000</u>	for a firm designated as a Level 2 or 3 Dealer that is also registered as an investment fund manager under securities laws			
<u>\$200,000</u>	for a firm designated as a Level 4 Dealer that does not use client free credit cash balances within their operations or offer margin accounts to clients			
<u>\$250,000</u>	for a firm designated as a Level 4 Dealer that uses client free credit cash balances within their operations or offers margin accounts to clients.			

For Investment Dealer Members, the minimum capital amount is \$75,000.:

#### Form 1, Part 1 – Statement B

#### Notes and instructions (Continued)

<u>\$75,000</u>	for a firm that is a Type 1 introducing broker
<u>\$250,000</u>	for a firm that is not a Type 1 introducing broker

#### (57) Line 1516 - Contingent liabilities

No Dealer Member may give, directly or indirectly, by means of a loan, guarantee, the provision of security or of a covenant or otherwise, any financial assistance to an *individual* and/or corporation unless the amount of the loan, guarantee, provision of security or of the covenant or any other assistance is limited to a fixed or determinable amount and the amount is provided for in computing *risk adjusted capital*.

The margin required shall be the amount of the loan, *guarantee*, etc. less the loan value of any accessible collateral, calculated in accordance with the *Corporation requirements*.

A guarantee of payment is not acceptable collateral to reduce margin required.

The Dealer Member should maintain and retain the details of the margin calculations for contingencies, such as guarantees or returned cheques, for the Corporation's review.

#### (68) Line 19b – Provider of capital concentration phase in adjustment

Where a *Mutual Fund Dealer Member* has a provider of capital concentration charge, the charge may be reduced by the following percentage during the transitionary period following the implementation of the Dealer and Consolidated Rules:

Period following DC Rule	Reduction percentage		
Implementation			
<u>1<sup>st</sup> year</u>	<u>90%</u>		
2 <sup>nd</sup> and 3 <sup>rd</sup> year	<u>80%</u>		
<u>4<sup>th</sup> and 5<sup>th</sup> year</u>	<u>50%</u>		
<u>6<sup>th</sup> year</u>	<u>0%</u>		

<u>On Line 19b the Mutual Fund Dealer Member should report the amount that equals the provider of capital concentration</u> <u>charge multiplied by the reduction percentage in the chart above. This amount will be reduced in the determination of the</u> <u>total margin required.</u>

#### (9) Line 2021 – Securities held at non-acceptable securities locations

(i) Capital Requirements

In general, the capital requirements for securities held in custody at another entity are as follows:

- (a) Where the entity qualifies as an acceptable securities location, there shall be no capital requirement, provided there are no unresolved differences between the amounts reported on the books of the entity acting as custodian and the amounts reported on the books of the *Dealer Member*. The capital requirements for unresolved differences are discussed separately in the notes and instructions for the completion of Statement B, Line <u>2224</u> below.
- (b) Where the entity does not qualify as an *acceptable securities location*, the entity shall be considered a nonacceptable securities location and the *Dealer Member* shall be required to deduct 100% of the *market value* of the securities held in custody with the entity in the calculation of its *risk adjusted capital*.

However, there is one exception to the above general requirements. Where the entity would otherwise qualify as an *acceptable securities location* except for the fact that the *Dealer Member* has not entered into a written custodial agreement with the entity, as required by *Corporation requirements*, the capital requirement shall be determined as follows:

- (I) Where setoff risk with the entity is present, the *Dealer Member* shall be required to deduct in the calculation of its risk adjusted capital, the lesser of:
  - (A) 100% of the setoff risk exposure to the entity, or
  - (B) 100% of the market value of the securities held in custody with the entity,
  - and

# Form 1, Part 1 – Statement B Notes and instructions (Continued)

(II) The Dealer Member shall be required to deduct 10% of the market value of the securities held in custody with the entity in the calculation of its *early warning reserve*.

The sum of the requirements calculated in paragraphs (I) and (II) above shall be no greater than 100% of the *market value* of the securities held in custody with the entity. Where the sum amounts initially calculated in paragraphs (I) and (II) above are greater than 100%, the capital required under paragraph (II) and the amount reported as a deduction in the calculation of the *early warning reserve* shall be reduced accordingly.

For the purposes of determining the capital requirement detailed in paragraph (I) above, the term "setoff risk" shall mean the risk exposure that results from the situation where the *Dealer Member* has other transactions, balances or positions with the entity, where the resultant obligations of the *Dealer Member* might be setoff against the value of the securities held in custody with the entity.

(ii) Client Waiver

Where the laws and circumstances prevailing in a foreign jurisdiction may restrict the transfer of securities from the jurisdiction and the *Dealer Member* is unable to arrange for the holding of client securities in the jurisdiction at an *acceptable securities location*, the *Dealer Member* may hold such securities at a location in that jurisdiction if

- (a) the Dealer Member has entered into a written custodial agreement with the location as required hereunder and
- (b) the client has consented to the arrangement, acknowledged the risks and waived any claims it may have against the *Dealer Member*, in a form approved by the *Corporation*. Such a consent and waiver must be obtained on a transaction by transaction basis.

#### (710) Line 22 – Cash not segregated in trust

Where the Dealer Member is a Mutual Fund Dealer Member that does not use client free credit cash balances within their operations and the Dealer Member does not segregate client cash into a trust account within one business day following determination of the deficiency, the amount of the deficiency must be reported on this line as a capital charge.

Where the Dealer Member is a Mutual Fund Dealer Member that uses client free credit cash balances within their operations or an Investment Dealer Member and the Dealer Member does not segregate free credits as required on Statement F within one business day following determination of a free credit segregation deficiency, the amount of the deficiency required to be segregated must be reported on this line as a capital charge.

#### (11) Line 2224 – Unresolved Differences

Items are considered unresolved unless:

- (i) a written acknowledgement from the counterparty of a valid claim has been received
- (ii) a journal entry to resolve the difference has been processed as of the due date of Form 1.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of Form 1.

Provision should be made for the *market value* and margin requirements at the Form 1 date on out-of-balance short securities and other adverse unresolved differences (such as, with banks, trust <u>companies</u>, <u>mutual fund</u> companies, brokers, clearing corporations) still unresolved as at a date one month subsequent to the Form 1 date or other applicable due date of Form 1.

The margin rate to be used is the one that is appropriate for inventory positions. For instance, if the calculation is for securities eligible for reduced margin, the margin rate is 25%, rather than 30%.

A separate schedule, in a form approved by the *Corporation*, must be prepared detailing all unresolved differences as at the report date.

The following guidelines should be followed when calculating the required to margin amount on unresolved items:

Type of unresolved difference	Amount required to margin
Money balance - credit (potential gains)	None
Money balance - debit (potential losses)	Money balance

## Form 1, Part 1 – Statement B

#### Notes and instructions (Continued)

Type of unresolved difference	Amount required to margin
Unresolved long with money on the Dealer Member's book	Money balance on the trade minus <i>market value</i> of the security <sup>1</sup> plus the applicable inventory margin
Unresolved long without money on the <i>Dealer Member's</i> books	None

Unresolved short with money on the Dealer Member's books	<i>Market value</i> of the security minus money balance on the trade <sup>2</sup> plus the applicable inventory margin
Unresolved long/short on the other broker's books	None
Short security break (e.g. mutual funds, stock dividends) or Unresolved short without money on the <i>Dealer Member's</i> books	<i>Market value</i> of the security plus the applicable inventory margin

If an adverse unresolved difference (deficiency) in a nominee name mutual fund position has not been resolved within thirty days of being discovered, the *Dealer Member* shall immediately purchase the securities that are short.

Where <u>nominee name</u> mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the *market value* of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months and no loan value has been associated with the mutual fund, the percentage shall be 10%. In all other cases, the percentage shall be 100%.

#### (812) Statement B Supplemental

(i) Unresolved differences in accounts:

Report all differences determined on or before the report date that have not been resolved as of the due date.

Month end	Month end plus 20 business days

(Report date)

(Due date)

Include differences determined on or before the report date that have not been resolved as of the due date.

Do not include differences as of the report date that have been resolved on or before the due date.

For each account listed, set out the number of unresolved differences and the money value of both the debit and credit differences. The debit/short value column includes money differences and *market value* of security differences, which represent a potential loss. The credit/long value column includes money differences and *market value* of security differences, which represent a potential gain. In determining the potential gain or loss, the money balance and the security position *market value* of the same transaction should be netted. Debit/short and credit/long balances of different transactions cannot be netted.

All reconciliations must be properly documented and made available for review by the *Corporation*'s examination staff and the *Dealer Member*'s auditor.

<sup>&</sup>lt;sup>1</sup> Money balance on the trade minus *market value* of the security is also referred to as the mark-to-market adjustment.

<sup>&</sup>lt;sup>2</sup> Market value of the security minus money balance on the trade is also referred to as the mark-to-market adjustment.

#### Form 1, Part 1 – Statement B

#### Notes and instructions (Continued)

(ii) Unresolved differences in security counts:

Report all security count differences determined on or before the report date that have not been resolved as of due date. The amount required to margin is the *market value* of short security differences plus the applicable inventory margin.

## (9<u>13</u>) Line 2325 - Other

This item should include all margin requirements not mentioned above as outlined in the Corporation requirements.

# Form 1, Part I – Statement C

Dealer Member's name

# Statement of early warning excess and early warning reserve

at \_\_\_\_\_

		Defenses	N	C\$0001-	Current year
		Reference	Notes	<u>C\$000's</u>	C\$000's
1.	Risk adjusted capital	B- <del>29<u>31</u></del>			
I	Liquidity items				
2.	Deduct: Other allowable assets	A- <mark>18</mark> 19			
3.	Deduct: Tax recoveries	Sch. <del>6<u>8</u>A</del>			
4.	Deduct: Securities held at non-acceptable securities locations			_	
5.	Add: Non-current liabilities	A- <del>67<u>70</u></del>			
6.	Less: Subordinated loans	A- <del>66<u>69</u></del>		_	
7.	Less: Finance leases and lease-related liabilities	A- <del>64<u>67</u></del>		_	
<u>7b.</u>	Less: Portion of non-current liabilities phased in	<u>B-3b</u>		_	
8.	Adjusted non-current liabilities for early warning purposes [Line 5 less Lines 6 <u>. 7</u> and 7 <u>b]</u>				
9.	Add: Tax recoveries - income accruals	Sch. <mark>6<u>8</u>A</mark>		-	
<u>10.</u>	Add: Lesser of:				
	(a) Other allowable assets with provider of capital that resulted in capital charge reported on Line 10 (b) below				
	(b) Provider of capital concentration charge	<u>Sch.14</u>			
<del>10.</del> <u>11.</u>	<b>Early warning excess</b> [Line 1 less Lines 2 through 4 plus lines 8 <del>and<u>through</u> 9]10]</del>				
<del>11.</del> <u>12.</u>	Deduct: Capital cushion - <i>Total margin required</i> \$ multiplied by 5%	B- <del>24<u>26</u></del>		_	
<del>12.</del> <u>13.</u>	Early warning reserve [Line 1011 less Line 1112]				

# Form 1, Part I – Statement C Notes and instructions

- (1) The early warning system is designed to provide advance warning of a *Dealer Member* encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage *Dealer Members* to build a capital cushion.
- (2) Line 1 If risk adjusted capital (RAC) of the Dealer Member is less than:
  - (i) 5% of total margin required (Line 11), then the Dealer Member is designated as being in early warning category Level 1, or
  - (ii) 2% of total margin required (Line 11), then the Dealer Member is designated as being in early warning category Level 2,

and the applicable sanctions outlined in the Corporation requirements will apply.

- (2) (3) Lines 2 and 3 These items are deducted from RAC because they are illiquid or the receipt is either out of the *Dealer Member*'s control or contingent.
- (43) Line 4 Pursuant to the notes and instructions for the completion of Statement B, Line 2021, where the entity would otherwise qualify as an acceptable securities location except for the fact that the Dealer Member has not entered into a written custodial agreement with the entity, as required by the Corporation requirements, the Dealer Member will be required to deduct an amount up to 10% of the market value of the securities held in custody with the entity, in the calculation of its early warning reserve. Refer to the detailed calculation formula set out to the notes and instructions for the completion of Statement B, Line 2021 to determine the capital requirement to be reported on Statement C, Line 4.
- (54) LineLines 5, 6, 7 and to 8 Non-current liabilities (other than subordinated loans, and non-current portion of finance leases and lease-related liabilities) are added back to RAC as they are not current obligations of the *Dealer Member* and can be used as financing. <u>The non-current liabilities are adjusted for the portion which has already been added back to RAC on</u> <u>Statement B by Mutual Fund Dealer Members using the phased approach.</u>
- (65) Line 9 This add-back ensures that the Dealer Member is not penalized at the early warning level for accruing income.
- (7) Line 10 If early warning excess is negative, the Dealer Member is designated as being in early warning category Level 2 and the sanctions outlined in the Corporation requirements will apply.
- (8) Line 12 If the early warning reserve is negative, the Dealer Member is designated as being in early warning category Level 1 and the sanctions outlined in the Corporation requirements will apply.6) Line 10 - This add-back ensures that the Dealer Member is not penalized twice for other allowable assets that result in a provider of capital charge. The provider of capital concentration charge reported on line 10 (b) should be net of the transitionary phase in adjustment on line 19b of Statement B.

Dealer Member's name

### Statement of income and comprehensive income

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for the period ended

				Current year / month	Previous year / month
		Reference	Notes	C\$000's	C\$000's
Comm	ission <del>Revenue<u>revenue</u></del>				
1.	Listed <del>Canadian</del> securities				
<del>2.</del>	Other securities				
<del>3.<u>2.</u></del>	Mutual funds				
<u>3.</u>	Segregated funds				
<u>4.</u>	Deposit instruments				
<del>4.</del>	Listed Canadian options				
5.	Other listedListed options				
6.	<del>Listed Canadian <i>futures</i><u>Futures</u> contracts</del>				
<del>7.</del>	Other futures contracts				
<del>8.<u>7.</u></del>	Over-the-counter derivatives				
<u>8.</u>	Other investment products				
Princip	al revenue <u>(realized/unrealized gains (losses))</u>				
<u>9.</u>	Listed securities				
<u>10.</u>	Over-the-counter debt securities				
<u>11.</u>	<u>Money market</u>				
<del>9.<u>12.</u></del>	Listed <del>Canadian</del> options and related underlying securities				
<del>10.</del>	Other equities and options				
<del>11.</del>	<del>Debt</del>				
<del>12.</del>	Money market				
13.	Futures contracts				
14.	Over-the-counter derivatives				
<u>15.</u>	Other investment products				
Corpoi	rate finance revenue				
<del>15.<u>16.</u></del>	New issues – equity				
<del>16.<u>17.</u></del>	New issues – debt				
<del>17.<u>18.</u></del>	Corporate advisory fees				
	revenue				
10.10	Internet				
	Interest				
<del>19.<u>20.</u> 21</del>					
<u>21.</u> 22	Referral fees				
<u>22.</u> 22	Other fees				
<u>23.</u>	<u>Foreign exchange gains/losses</u>				

# Form 1, Part I – Statement ED (Continued)

<del>20.<u>24.</u></del>	Other [provide details]	 	
<del>21.<u>25.</u></del>	Total revenue		
Expens	es		
<del>22.<u>26.</u></del>	Variable compensation	 	
<del>23.<u>27.</u></del>	Commissions and fees paid to third parties	 	
<del>24.<u>28.</u></del>	Bad debt expense	 	
<del>25.<u>29.</u></del>	Interest expense on subordinated debt		
<del>26.<u>30.</u></del>	Financing cost	 	
<del>27.<u>31.</u></del>	Corporate finance cost	 	
<del>28.<u>32.</u></del>	Unusual items [provide details]	 	
<del>29.<u>33.</u></del>	Pre-tax profit (loss) for the period from discontinued operations	 	
<del>30.<u>34.</u></del>	Operating expenses	 	
<del>31.<u>35.</u></del>	Profit (loss) for early warning test		
<del>32.<u>36.</u></del>	Income – Asset revaluation	 	
<del>33.<u>37.</u></del>	Expense – Asset revaluation	 	
<del>34.<u>38.</u></del>	Interest expense on internal subordinated debt	 	
<del>35.<u>39.</u></del>	Bonuses	 	
<del>36.<u>40.</u></del>	Net income (loss) before income tax		
<del>37.<u>41.</u></del>	Income tax expense (recovery), including taxes on S- <del>6(5<u>8(5</u>)</del> profit (loss) from discontinued operations		
<del>38.<u>42.</u></del>	Profit (loss) for period		
		<del>F-11<u>E-11</u></del>	
Other c	omprehensive income		
<del>39.43.</del>	Gain (loss) arising on revaluation of properties		
		 <del>F-5a<u>E-5a</u></del>	
<del>40.<u>44.</u></del>	Actuarial gain (loss) on defined benefit pension plans		
		 <del>F-5b<u>E-5b</u></del>	
<u>41.45.</u>	Other comprehensive income for the period, net of tax [Lines <del>39<u>43</u> plus <u>4044</u>]</del>		
<del>42.<u>46.</u></del>	Total comprehensive income for the period [Lines <del>38<u>42</u> plus <u>4145]</u></del>		
The foll	owing lines must also be completed when filing the MFR:		
<del>43.<u>47.</u></del>	Payment of dividends or partner's drawings	 	
<u>44.<u>48.</u></u>	Other [provide details]	 	
<u>45.49.</u>	Net change to retained earnings <u>(or undivided</u> <u>profits or fund balances)</u> [Sum of Lines <del>3842</del> , <del>4347</del> and <u>4448</u> ]		

# Form 1, Part I – Statement <u>ED</u> Notes and instructions

(1)------

### (1) Comprehensive income

Comprehensive income represents all changes in equity during a period resulting from transactions and other events, other than changes resulting from transactions with owners in their capacity as owners. Comprehensive income includes profit and loss for the period and other comprehensive income (OCI). OCI captures certain gains and losses outside of net income. For regulatory financial reporting, two acceptable sources of other comprehensive income (OCI) are:

(i) (i) the use of the revaluation model for plant, property and equipment (PPE) and intangible assets, and

(ii) (iii) the actuarial gain (loss) on defined benefit pension plans.

(2) (2) Line 1 - Include1-8 - Report all gross commissions earned on listed Canadian securities\_commission revenue on the appropriate lines. Commissions earned on soft dollar deals with respect to the revenue source should also be included in the appropriate Lines 1 to 8. Commission paid to registered representatives must be reported on Line 2226 (Expenses: variable compensation). Payouts to other brokers, mutual funds and segregated funds etc. must be reported on Line 2327 (Expenses: commissions and fees paid to third parties).

<del>(3</del>

- (3) Line 1 Include all gross commissions earned on listed Canadian and foreign securities (including exchange-traded funds).
- (<u>4</u>) Line 2 Include <u>all gross commissions and trailer fees</u> earned on <u>over-the-countermutual fund</u> transactions (equity or debt, foreign or Canadian), rights and offers, and other foreign securities <u>excluding exchange-traded funds which are reported on Line 1</u>).

Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).

(4

(5) Line 3 - Include all gross commissions and trailer fees earned on mutualsegregated fund transactions.

Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to the mutual funds must be reported on Line 23 (Expenses: commissions and fees paid to third parties).

<del>(5</del>

(6) Line 4 - Include all gross commissions earned on listed option contracts cleared through the Canadian Derivatives Clearing Corporation (CDCC).

Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).

- (6) Line 5 Include gross commissions on foreign listed option<u>deposit instrument</u> transactions. Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
- (7) Line 65 Include all gross commissions earned on listed futures option contracts cleared through the <u>Canadian Derivatives</u> <u>Clearing Corporation (CDCC-</u>
- Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation) and foreign listed option transactions.
- (8) Line 76 Include all gross commissions earned on foreign listed futures contracts.
- Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation) <u>cleared through</u> <u>the CDCC and foreign listed futures contracts</u>.
- (9) Line 87 Include gross commissions earned on over-the-counter options, forwards, contracts-for-difference, FX spot, and swaps.

Commission paid to registered representatives

- (10) Line 8 Include gross commissions earned on transactions in any other investment products not included in Lines 1-7.
- (11) Lines 9-15 Report all principal revenue (realized/unrealized gains and losses) on the appropriate lines. Include any adjustment of inventories to *market value*. The financing costs must be reported <u>separately</u> on Line 2230 (Expenses: variable compensation).

### Form 1, Part I – Statement ED

### Notes and instructions (Continued)

(10 financing cost).

(12) Line 9 - Include all principal revenue (trading profits/losses, including dividends) from listed options cleared through CDCC and related underlying security transactions in market makers' and Dealer Member's inventory accounts. Include adjustment of inventories to market value.

The financing cost must be reported separately on Line 26 (Expenses: financing cost).

(11) Line 10 - Include all principal revenue (trading profits/losses, including dividends) from all other options and equities<u>Canadian and foreign securities</u> except those indicated on Line 9<u>12</u> (Principal revenue: listed Canadian<u>Listed</u> options and related underlying securities).

Include adjustment of inventories to market value.

The financing cost must be reported separately on Line 26 (Expenses: financing cost).

<del>(12</del>

(13) Line 1110 - Include revenue (trading profits/losses) on all debt instruments, other than money market instruments. Include adjustment of inventories to *market value*.

The financing cost must be reported separately on Line 26 (Expenses: financing cost).

- (1314) Line 1211 Include revenue on all money market activities. Money market commissions should also be shown here.
- Include any adjustment of inventories to market value.

The cost of carry must be reported separately on Line 26 (Expenses: financing cost)

- (15) Line 12 Include all principal revenue (including dividends) from listed options cleared through CDCC and foreign listed option transactions, as well as related underlying security transactions in market makers' and *Dealer Member's* inventory accounts.
- (1416) Line 13 Include all principal revenue (trading profits/losses) on futures contracts.
- (15<u>17</u>) Line 14 Include revenues<u>all principal revenue</u> from over-the-counter *derivatives*, such as forward contracts and swaps.

Include adjustment of inventories to market value

- (18) Line 15 Include all principal revenue from other investment products not included on Lines 9-14.
- (1619) Line 1516 Include revenue relating to equity new issue business underwriting and/or management fees, banking group profits, private placement fees, trading profits on new issue inventories (trading on an "if, as and when basis"), selling group spreads and/or commissions, and convertible debts.

Syndicate expenses must be reported separately on Line 27<u>31</u> (Expenses: corporate finance cost).

(1720) Line 1617 - Include revenue relating to debt new issue business - Corporate and government issues, and Canada Savings Bond (CSB) commissions.

Amounts paid to CSB sub-agent fees and for syndicate expenses must be reported separately on Line 27<u>31</u> (Expenses: corporate finance cost).

- (1821) Line 1718 Include revenue relating to corporate advisory fees, such as corporate restructuring, privatization, M&A fees. The related expenses must be reported separately on Line 2731 (Expenses: corporate finance cost).
- (1922) Line 1819 Include all interest revenue, which is not otherwise related to a specific liability trading activity (i.e. other than debt, money market, and *derivatives*).

All interest revenue from carrying retail and *institutional client* account balances should be reported on this line. For example, interest revenue earned from client debit balances.

The related interest cost for carrying retail and *institutional client* accounts should be reported separately on Line <u>2630</u> (Expenses: financing cost).

(2023) Line 1920 - Include proxy fees, portfolio service fees, segregation and safekeeping fees, RRSP fees, and any charges to clients that are not related to commission or interest.

### Form 1, Part I – Statement ED

#### Notes and instructions (Continued)

- (25) Line 22 Include management fees, consulting fees and other fees charged to parties other than clients.
- (26) Line 2023 Include gains/losses from foreign exchange profits/losses and transactions.
- (27) Line 24 Include all other revenue not reported in lines above.
- (2228) Line 2226 Include commissions, bonuses and other variable compensation of a contractual nature.

Examples would encompass commission payouts to *registered representatives* and payments to institutional and professional trading personnel.

All contractual bonuses should be accrued monthly.

Discretionary bonuses should be reported separately on Line 3539 (Expenses: bonuses).

- (2329) Line 2327 Include payouts to other brokers and mutual funds.
- (24<u>30</u>) Line 25<u>29</u> Include all interest on external *subordinated debt*, as well as non-discretionary contractual interest on internal *subordinated debt*.
- (25<u>31</u>) Line 26<u>30</u> Include the financing cost for all inventory trading (related to Lines 9, 10, 11 and 129-15) and the cost of carrying client balances (related to Line 1819).
- (2632) Line 2731 Include syndicate expenses and any related corporate finance expenses, as well as CSB fees.
- (27<u>33</u>) Line 28<u>32</u> Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities.

Discontinued operations, such as a branch closure, should be reported separately on Line 2933 (Expenses: <u>Pre-tax</u> profit/loss for the period from discontinued operations).

- (2834) Line 2933 A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, branch closure. The profit/loss) on discontinued operations for the period is on a pre-tax basis. The tax component is to be included as part of the income tax expense (recovery) on Line 3741.
- (2935) Line 3034 Include all operating expenses (including those related to soft dollar deals).

Over-certification cost relating to debt instruments should be reported on this line.

Transaction cost for inventory trading (specifically for inventory that are categorized as held-for-trading) should be included on this line.

The expense related to share-based payments (such as stock option or share reward) to *employees* and non-*employees* should be included on this line.

- (3036) Line 3135 This is the profit/loss number used for the early warning profitability tests.
- (31<u>37</u>) Line 32<u>36</u> When a *Dealer Member* uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.
- (3238) Line 3337 When a *Dealer Member* uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.
- (3339) Line 3438 Include interest expense on *subordinated debt* with related parties for which the interest charges can be waived if required.
- (34<u>40</u>) Line 35<u>39</u> This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. These bonuses are in contrast to those reported on Line 2226 (Expenses: variable compensation).
- (35<u>41</u>) Line <u>3741</u> Include only income taxes and the tax component relating to the profit/loss on discontinued operations for the period.

Realty and capital taxes should be included on Line 3034 (Expenses: operating expenses).

- (3642) Line 42 For a Dealer Member that is structured as a not-for-profit organization, the profit (loss) for the period reported on this line represents the excess of the revenue over the expenses.
- (43) Line 3943 When a Dealer Member uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income

### Form 1, Part I – Statement ED

### Notes and instructions (Continued)

or expense from asset revaluation.

- (37<u>44</u>) Line 40<u>44</u> When a *Dealer Member* has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.
- (38<u>45</u>) Line <u>4145</u> For MFR reporting, other comprehensive income for the period on Line <u>4145</u> is the net change to reserves on Statement A Line <u>7073</u>.
- (3946) Line 4348 To be used for MFRmonthly financial report filing only.
- (4047) Line 4449 To be used for MFR<u>monthly financial report</u> filing only: Include direct charges or credits to retained earnings. Any adjustment required to reconcile the MFR's retained earnings to the audited Form 1 retained earnings must be posted to the individual Statement ED line items on the first MFR that is filed after the adjustment is known.

Dealer Member's name

# Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) or fund balances (not-for-profits)

		for the year endec	I		
Α.	Changes in issued capital		Share capital or partnership capital [a]	Share premium [b]	lssued capital [c] = [a] + [b]
		Notes	C\$000's	C\$000's	C\$000's
1.	Beginning balance				
2.	Increases (decreases) during the period [provide details]				
	(a)				
	(b)				
	(c)				
3.	Ending balance				<u>A-72</u> <del>A-69</del>

#### В. **Changes in reserves**

5.		Notes	General [a] C\$000's	Properties revaluation [b] C\$000's	Employee benefits [c] C\$000's	Employee defined benefit pension [d] C\$000's	Total reserves [e] = [a] + [b] + [c] + [d] C\$000's
4.	Beginning balance						
5.	Changes during the period						
	(a) Other comprehensive income for the year – properties revaluation			<del>E-39<u>D-43</u></del>			
	(b) Other comprehensive income for the year – actuarial gain (loss) on defined benefit pension plans						
	prans		<u> </u>			<del>E-40<u>D-44</u></del>	
	(c) Recognition of share- based payments				<del>E-30<u>D-34</u></del>		
	(d) Transfer from/to retained earnings		<del>F-12<u>F-</u> 12</del>				

### Form 1, Part I – Statement FE (Continued)

### B. Changes in reserves

	(e) Other [provide details]	 	 	 
6.	Ending balance	 	 	 

# A-70<u>A-73</u>

### C. Changes in retained earnings [or undivided profits or fund balances]

		Notes	<u>Operating</u> <u>fund</u> (for NFP only) [a] <u>C\$000's</u>	Internally restricted fund (for NFP only) [b] C\$000's	Externally restricted <u>fund</u> (for NFP only) [c] C\$000's	Retained earnings <u>[undivided</u> profits or fund balances] (Current year) <u>[d]</u> C\$000's	Retained earnings <u>[undivided</u> <u>profits or</u> <u>fund</u> <u>balances]</u> (Previous year) C\$000's
7.	Beginning balance		. <b></b>				
8.	Effect of change in accounting policy [provide details]						
	(a)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
	(b)		N/A	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
9.	As restated		N/A	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
10.	Payment of dividends or partners drawings		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>		
11.	Profit or loss <u>(excess of</u> <u>revenue over expenses)</u> for the year					<del>E-38<u>D-42</u></del>	
12.	Other direct charges or credits to retained earnings <u>(or undivided</u> <u>profits or fund</u> <u>balances</u> [provide details] (a) (b)						
	(c)						
13.	Ending balance						

<del>A-71<u>A-74</u></del>

# Form 1, Part I – Statement FE Notes and instructions

### (1) Section A - Changes in issued capital

(i) Change in share or partnership capital

<u>Depending on the circumstances, a</u> <u>Dealer Member</u> must <u>either formally notify or</u> obtain prior approval from the *Corporation* for <del>any changesignificant changes</del> in any class of common and preferred share or partnership capital<u>in</u> <u>accordance with section 2107</u>.

(ii) Share premium

When the *Dealer Member* sells its shares (initial issuance or from treasury), share premium is the excess amount received by the *Dealer Member* over the par value (or nominal value) of its shares. Share premium cannot be used to pay out dividends.

### (2) Section B - Changes in reserves

(i) General reserve

General reserve is an amount set aside for future use, expense, loss or claim - in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. Appropriation directly from the income statement is not permitted for general reserves.

(ii) Reserve - employee benefits

When a *Dealer Member* has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in other comprehensive income (OCI), all subsequent adjustments must be recognized as other comprehensive income and will be accumulated in a reserve account.

When a *Dealer Member* has stock option or share award granted to its *employees* by issuing new shares, the *Dealer Member* recognizes the fair value of the option or new shares granted as an expense with a corresponding increase in a reserve account.

(iii) Reserve - properties revaluation

When using the revaluation model for certain non-allowable assets (PPE and intangibles), a *Dealer Member* will account the initial increase in value as other comprehensive income (OCI) and will accumulate the increase (and subsequent changes) in a revaluation reserve account.

### (3) Section C - Changes in retained earnings or undivided profits or fund balances

(i) Change in accounting policy and retroactive adjustment of prior year's retained earnings

A change in accounting policy in the current year requires retroactive adjustment of the prior year's retained earnings. The beginning balance of the current year must be the ending balance of the prior year.

(ii) Fund balances

A Dealer Member structured as a not-for-profit organization must complete the columns for fund balances ([a], [b] and [c]) to show the changes in the fund balances. These columns are not applicable for a Dealer Member structured as a corporation or partnership. The total of the fund balances ([a]+[b]+[c]) must be reported in column [d] as the current total change in fund balances.

(iii) Retained earnings or undivided profits

<u>A Dealer Member structured as a corporation or partnership must report their balances related to the current year</u> change in retained earnings in column [d]. The summation of the fund balances ([a]+[b]+[c]) is only applicable to a <u>Dealer Member structured as a not-for-profit organization.</u>

# Form 1, Part I – Statement **D**<u>F</u>

Investment Dealer Member's name

### Statement of free credit segregation amount - Investment Dealer Members

	at			
		Reference	Notes	Current year C\$000's
A. A	mount required to segregate based on general free credit limit			
	General client free credit limit			
1.	Early warning reserve of \$ multiplied by 12 [Report NIL if amount is negative]	C- <del>12<u>13</u></del>		
	Less client free credit balances:			
2.	Dealer Member's own	Sch.4		
3.	Carried for Type 3 Introducers			
4.	Total client free credit balances [Section A, Line 2 plus Section A, Line 3]			
5.	Amount required to segregate based on general client free credit limit [Section A, Line 4 minus Section A, Line 1; report NIL if result is negative]			
	mount required to segregate based on margin lending adjusted client free credit mit			
	Client free credit limit for margin lending purposes			
1.	<i>Early warning reserve</i> of \$ multiplied by 20 [Report NIL if amount is negative]	C- <del>12<u>13</u></del>		
	Less client free credit balances used to finance client margin loans:			
2.	Total settlement date client margin debit balances			
3.	Total client free credit balances [Include amount from Section A, Line 4 above]			
4.	Subtotal - Client <i>free credit balances</i> used to finance client margin loans [Lesser of Section B, Line 2 and Section B, Line 3]			
5.	Amount required to segregate relating to margin lending [Section B, Line 4 minus Section B, Line 1; report NIL if result is negative]			
	Free credit limit for all other purposes			
6.	Early warning reserve [Report NIL if amount is negative]	C- <del>12</del> 13		
7.	Total settlement date client margin debit balances divided by 20			
8.	Portion of <i>early warning reserve</i> available to support all other uses of client free credits [Section B, Line 6 minus Section B, Line 7; report NIL if result is negative]			
9.	Client free credit limit for all other purposes [Section B, Line 8 multiplied by 12]			
10.	Client free credits not used to finance margin loans			
	[Section A, Line 4 minus Section B, Line 4]			
11.	Amount required to segregate relating to all other purposes [Section B, Line 10 minus Section B, Line 9; report NIL if result is negative]			
12.	Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 5 plus Section B, Line 11]			
C. A	mount required to segregate			
1.	Amount required to segregate based on general client free credit limit [Section A, Line 5]			
2.	Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 12]			
3.	Amount required to segregate [Lesser of Section C, Line 1 and Section C, Line 2 if Section B completed; otherwise Section C, Line 1]			

### D. Amount in segregation

1.	Client funds held in trust in an account with an acceptable institution	A-3	 
2.	Market value of securities owned and in segregation	Sch.2	 
3.	Amount in segregation [Section D, Line 1 plus Section D, Line 2]		
4.	Net segregation excess (deficiency) [Section D, Line 3 minus Section C, Line 3]	<u>B-22</u>	

### Form 1, Part I – Statement **D**<u>F</u> 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. <u>Investment Dealer Members must report their free credit segregation amount on this statement. If a Mutual Fund Dealer Member chooses to use client free credit balances in its operations under subsection 4382(2), the Mutual Fund Dealer Member must report their free credit segregation amount on this statement as Investment Dealer Members.</u>
- (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*.

In CIRO Bulletin 24-0067, we propose to add the following additional note under Note (2) into IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

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:

- (a<u>i</u>) 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.
- (bii) 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 <u>a Canadian</u> <u>financial institution qualifying as</u> 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 <u>Investment</u> Dealer Member's property:

Secur	ities eligible for client free credit segregation	purposes	
Categ	jory	Minimum designated rating organization current credit rating	Qualification(s)
1.	<ul> <li>Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following:</li> <li>(i) national governments of Canada, United Kingdom, and United States, or</li> <li>(ii) Canadian provincial governments</li> </ul>	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	ΑΑΑ	Foreign government of a Basel Accord country

### Form 1, Part I – Statement **P**<u>F</u> Notes and instructions (Continued)

	national foreign government not identified in category 1		
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 <u>Investment</u> Dealer Member must correct the segregation deficiency within <u>51</u> business <u>daysday</u> following the determination of the deficiency. <u>Where the deficiency exists</u> for more than one business day, it must be provided out of the <u>Investment Dealer Member's capital</u>. The <u>Investment</u> Dealer Member must provide an explanation of how the deficiency was corrected and the date of correction.

Dealer Member's name

### Notes to the Form 1 financial statements

at\_\_\_\_\_

## <u>Agreed-upon Procedures Report on compliance for insurance and segregation of cash and investment products – Mutual Fund Dealer</u> <u>Members</u>

To: <Dealer Member>

### Purpose of this Agreed-upon Procedures Report

 Our report is solely for the purpose of providing

 <t

### Responsibilities of the engaging party

 The Dealer Member,
 <name of Self-Regulatory Organization>
 and
 <name of Investor Protection Fund>
 have

 acknowledged that the agreed-upon procedures, as required by
 <name of Self-Regulatory Organization>
 , are

 appropriate for the purpose of the engagement. The Dealer Member is responsible for the subject matter on which the agreed upon
 procedures are performed.

### Practitioner's responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Canadian Standard on Related Services (CSRS). <u>4400, Agreed-upon Procedures Engagements</u>. An agreed-upon procedures engagement involves our performing the procedures that have <u>been agreed with the Dealer Member, and reporting the findings, which are the factual results of the agreed-upon procedures performed.</u> <u>We make no representation regarding the appropriateness of the agreed-upon procedures.</u>

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

### Professional ethics and quality management

### [Free form text]

[Sample: In performing the Agreed-upon Procedures engagement, we complied with the relevant ethical requirements in the rules of professional conduct/code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies. We have also complied with the independence requirements that are relevant to assurance engagements in Canada.]

Our firm applies Canadian Standard on Quality Management (CSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Procedures and findings

We have performed the procedures described below, which were agreed upon with the Dealer Member with respect to the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance and segregation of client cash and investment products as outlined in the Dealer and Consolidated Rules listed in the Procedures and Findings section below.

<u>#</u>	<u>Procedures</u>	<u>Findings [State the results of the</u> <u>procedures performed]</u>
<u>(1)</u>	Obtain the written internal control policies and procedures of the Dealer         Member, from management of the Dealer Member, and inspect whether they         include internal controls regarding:         (i)       maintaining insurance coverage as required in Part C of Dealer and Consolidated Rule 4400, and         (ii)       segregation of client cash and investment products as required in Part A and Part C of Dealer and Consolidated Rule 4300.	
<u>(2)</u>	Obtain written representation from management of the Dealer Member that. "the Dealer Member's internal control policies and procedures regarding_ insurance and segregation of client cash and investment products meet the_ minimum requirements in Part A and C of Dealer and Consolidated Rule 4300 and Part C of Dealer and Consolidated Rule 4400 as at <pre>period end date&gt;</pre> and have been implemented." The name and title of those of management who provided the written representation are to be reported in the findings.	
<u>(3)</u>	Obtain the financial institution bond insurance policy (FIB) as at <period end.<="" td="">         date&gt;       . from management of the Dealer Member, and inspect whether the         EIB:       (i)       clauses exist as per section 4456 of the Dealer and Consolidated         Rules for:       (a)       Fidelity         (b)       On premises       (c)         (c)       In transit       (d)         (e)       Securities       (ii)         (iii)       includes the minimum coverage limits as per section 4457 or 4458 of the Dealer and Consolidated Rules.</period>	
<u>(4)</u>	From a listing of all Dealer Member insurance brokers as at 	
<u>(5)</u>	From the report of total client net equity held as at <period date="" end=""> provided by management of the Dealer Member. Agree the total client net equity held by the Dealer Member as at <period date="" end=""> to Schedule 12 of Form 1.</period></period>	
<u>(6)</u>	From a listing of all segregation locations as at <pre></pre>	

(7)       From a listing of all cash segregation locations as at		meets the definition of "acceptable securities locations" as defined in the general notes and definitions to Form 1.
<ul> <li>(a) inspect that the account was designated as "in trust"; and</li> <li>(b) inspect that the account was interest bearing.</li> </ul>	(7)	provided by management of the Member:         (i)       inspect that each cash segregation location meets the definition of         "acceptable institutions" as defined in the general notes and         definitions of Form 1; and         (ii)       for each account:         (a)       inspect that the account was designated as "in trust"; and

 [Optional: Restriction on Use]

 [Free form text]

[Sample: This Agreed-upon Procedures Report is intended solely for the information and use of the Dealer Member, the Corporation and Investor Protection Fund and is not intended to be and should not be used by other parties.]

Auditing firm

<u>Date</u>

<u>Signature</u>

Place of issue

[Optional: Additional information]

Agreed-upon Procedures Report on compliance for insurance, segregation of securities investment products, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year <u>– Investment Dealer Members</u>

To: <Dealer Member>

#### Purpose of this Agreed-upon Procedures Report

 Our report is solely for the purpose of providing
 <</td>

 (Dealer Member)
 (Dealer Member) with information to assist the

 <name of Self-Regulatory Organization>
 and the
 <name of Investor Protection Fund>
 in their assessment of the Dealer

 Member's compliance with certain requirements regarding maintaining minimum insurance, segregation of client securities investment.
 products, and maintaining guarantee/guarantor relationships for margin relief as outlined in the Corporation Investment-Dealer and-Partially

 Partially
 Consolidated Rules listed in the Procedures and Findings section below and may not be suitable for another purpose.

#### Responsibilities of the engaging party

#### Practitioner's responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Canadian Standard on Related Services (CSRS) 4400, *Agreed-upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Dealer Member, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

#### Professional ethics and quality management

### [Free form text]

[Sample: In performing the Agreed-upon Procedures engagement, we complied with the relevant ethical requirements in the rules of professional conduct/code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies. We have also complied with the independence requirements that are relevant to assurance engagements in Canada.]

Our firm applies Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### **Procedures and findings**

We have performed the procedures described below, which were agreed upon with the Dealer Member with respect to the Dealer Member's compliance with certain requirements regarding maintaining minimum insurance, segregation of client <u>securitiesinvestment</u> <u>products</u>, and maintaining guarantee/guarantor relationships for margin relief as outlined in the <u>Corporation Investment</u> Dealer and-<u>Partially</u> Consolidated Rules listed in the Procedures and Findings section below.

#	Procedures	Findings [State the results of the procedures performed]
(1)	<ul> <li>Obtain the written internal control policies and procedures of the Dealer</li> <li>Member, from management of the Dealer Member, and inspect whether they include internal controls regarding:         <ul> <li>(i) maintaining insurance coverage as required in Part C of Corporation Investment Dealer and Partially Consolidated Rule 4400, and</li> <li>(ii) segregation of client securities investment products as required in Part A of Corporation Investment Dealer and Partially Consolidated Rule 4300.</li> </ul> </li> </ul>	
(2)	Obtain written representation from management of the Dealer Member that "the Dealer Member's internal control policies and procedures regarding insurance and segregation of client <u>securitiesinvestment products</u> meet the minimum requirements in Part A of <u>Corporation Investment</u> Dealer and- <u>Partially</u> Consolidated Rule 4300 and Part C of <u>Corporation Investment</u> Dealer and <u>Partially</u> Consolidated Rule 4400 as at <u></u>	
(3)	Obtain written representation from management of the Dealer Member that "the Dealer Member's guarantee agreements include the minimum requirements in section 5825 of the <del>Corporation Investment</del> Dealer and- <del>Partially</del> Consolidated Rules as at <u></u>	
(4)	Obtain the Financial Institution Bond Form #14financial institution bond         insurance policy (FIB) as at <period date="" end="">, from management of the         Dealer Member, and inspect whether the FIB:         (i)       clauses exist as per section 4456 of the Corporation Investment         Dealer and Partially Consolidated Rules for:         (a)       Fidelity         (b)       On premises         (c)       In transit         (d)       Forgery or alteration         (e)       Securities         (ii)       includes the minimum coverage limits as per section 4457 or 4458 of the Corporation Investment</period>	
(5)	From a listing of all Dealer Member insurance brokers as at 	

	<del>(i) Clauses</del>	
	(i) <u>(i)</u> Deductible	
	(j) (k) Losses and claims	
(6)	From a listing of all clients as at <u>_<period date="" end=""></period></u> , provided by management of the Dealer Member, select 10 <sup>1</sup> client account statements.	
	<ul> <li>(i) Calculate the client net equity amount at as <u></u></li></ul>	
	<ul> <li>(ii) Agree the calculated client net equity amount for each client statement in procedure (6)(i) to the Total Client Net Equity Report as at <u></u></li></ul>	
	(iii) Agree the total client net equity from the Total Client Net Equity Report as at <u></u>	
(7)	From a listing of all segregation locations as at <u></u>	
(8)	From a listing of all clients as at <u></u>	
	<ul> <li>(i) Calculate the segregation requirements in accordance with Part A of Corporation Investment Dealer and Partially Consolidated Rule 4300.     </li> <li>(ii) Agree the calculation in procedure (8)(i) to the Segregation Report as at, provided by management of the Dealer Member.     </li> </ul>	
(9)	From the Undersegregation Reports , provided by management of the Dealer Member, select 10 <u>securityinvestment product</u> positions reported as being undersegregated at various dates throughout the year. For the selected 10 <u>securityinvestment product</u> positions, inspect that the undersegregation was corrected within the timelines required by Part A of <u>Corporation Investment</u> Dealer and <u>Partially</u> Consolidated Rule 4300.	
(10)	From the list of hypothecated securities as at <u></u>	
(11)	From the Stock Record and Position Report (SRP) as at <u></u> , provided by management of the Dealer Member, select 10- <del>security</del> positions to identify a customer holding that position. For each client, compare the client's holding per the SRP to the individual customer account statement and	

<sup>&</sup>lt;sup>1</sup> Samples are to be selected statistically, haphazardly or randomly.

	inspect	that the stock message on the customer account statement	
	approp	iately indicates whether that the <del>security<u>investment product</u> position</del>	
	was held in segregation.		
	Select 10 segregated securities investment products from customer account		
	statements as at		
	trace ea	ach segregated <del>security<u>investment product</u> to the SRP as at <u></u></del>	
	end date>	and to the Segregation Report as at <u><period date="" end=""></period></u> ,	
	provided by management of the Dealer Member to inspect that the		
	security investment product position was held in segregation.		
(12)	Obtain	a list of guarantee relationships, provided by management of the	
	Dealer Member. From the listing obtained, select 10 guarantee relationships		
	used by the Dealer Member to reduce the margin required during the period		
	reported on the Form 1, for monthly financial reporting purposes. For each of		
	the 10 g	juarantee relationships:	
	(i)	Obtain written confirmation of the guarantee relationship from the	
	guarantor of the account(s) guaranteed and that the guarantee was		
		in place as at <u></u>	
	(ii)	Compare the wording of the guarantee agreements to the	
		requirements in section 5825 of the <del>Corporation Investment</del> Dealer	
		and <del>Partially</del> Consolidated Rules.	

[Optional: Restriction on Use]

[Free form text]

[Sample: This Agreed-upon Procedures Report is intended solely for the information and use of the Dealer Member, the Corporation and Investor Protection Fund and is not intended to be and should not be used by other parties.]

Auditing firm

Date

Signature

Place of issue

[Optional: Additional information]

### Form 1, Part II – Schedule 1

Dealer Member's name

### Date

# Analysis of loans receivable, securities borrowed and resale agreements

		Amount of loan receivable or cash delivered as collateral	Market value of securities delivered as collateral	Market value of securities received as collateral or borrowed	Required to margin
		C\$000's	C\$000's	C\$000's	C\$000's
		[see note 3]	[see note 4]	[see note 4]	
Loc	an receivable				
1.	Acceptable institutions		N/A		Nil
2.	Acceptable counterparties		N/A		
3.	Regulated entities		N/A		
4.	Others [see note 15]		N/A		
<b>Sec</b> 5. 6. 7. 8.	curities borrowed Acceptable institutions Acceptable counterparties Regulated entities Others [see note 15]				Nil
Res	sale agreements				
9.	Acceptable institutions		N/A		Nil
10.	Acceptable counterparties		N/A		
11.	Regulated entities		N/A		
12.	Others [see note 15]		N/A		
13.	Total [Sum of lines 1 through 12]				
		A-6			B- <u>910</u>

# 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 <i>Dealer Member</i> to lend cash and receive securities as collateral from the counterparty.		
"excess collateral deficiency"	<ul> <li>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</li> </ul>		
	<ul> <li>(ii) For a securities borrow arrangement, any excess of the market value of the actual collateral provided to the transaction counterparty over:</li> </ul>		
	(a) 102% of the <i>market value</i> of the securities borrowed, where cash is provided as collateral, or		
	(b) 105% of the <i>market value</i> 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 <i>Dealer Member</i> 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:

- set out the rights of each party to retain and realize on 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.

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

In CIRO Bulletin 24-0067, we propose to repeal and replace note 5 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(5) Written agreement requirements

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

# Form 1, Part II – Schedule 1 Notes and instructions (Continued)

- (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 <sup>1</sup>
Acceptable counterparty	Excess collateral deficiency <sup>1</sup>
Regulated entity	Excess collateral deficiency <sup>1</sup>
Other	Margin

<sup>1</sup> 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:

# Form 1, Part II – Schedule 1 Notes and instructions (Continued)

- (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

# Form 1, Part II – Schedule 1

### Notes and instructions (Continued)

- (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,

Transaction counterparty type	Margin required
Acceptable institution	No margin <sup>1</sup>
Acceptable counterparty	Excess collateral deficiency <sup>1</sup>
Regulated entity	Excess collateral deficiency <sup>1</sup>
Other	Margin

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

<sup>1</sup> 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.

In CIRO Bulletin 24-0067, we propose to add the following clause into note 7 in IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

(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 notes 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:

# Form 1, Part II – Schedule 1 Notes and instructions (Continued)

- (A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may rehypothecate 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 rehypothecate 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.

### (iii) 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 notes 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 rehypothecate 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 rehypothecate 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) 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) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 8(iii) are not all met.

#### (v) Margin requirements for securities resale arrangements

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

# Form 1, Part II – Schedule 1 Notes and instructions (Continued)

(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 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 <sup>1</sup>	Greater than 30 calendar days after regular settlement <sup>1</sup>	
Acceptable institution	No margin <sup>2</sup>		
Acceptable counterparty	Market value deficiency <sup>2</sup>	Margin	
Regulated entity	Market value deficiency <sup>2</sup>	Margin	
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)	

<sup>1</sup> 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.

- <sup>2</sup> 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 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) or (iii) 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) or (iii) 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 <sup>1</sup>	
Acceptable counterparty	Market value deficiency <sup>1</sup>	
Regulated entity	Market value deficiency <sup>1</sup>	
Other	Margin	

<sup>1</sup> 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.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 8 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

### (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 rehypothecate 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 rehypothecate 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 rehypothecate 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 rehypothecate 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.

# Form 1, Part II – Schedule 1 Notes and instructions (Continued)

### (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:

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

<sup>1</sup> 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.

- <sup>2</sup> 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 <sup>1</sup>		
Acceptable counterparty	Market value deficiency <sup>1</sup>		
Regulated entity	Market value deficiency <sup>1</sup>		
Other Margin			
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty</i> or <i>regulated entity</i> within 15 <i>business days</i> 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

# Form 1, Part II – Schedule 1 Notes and instructions (Continued)

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 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 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 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) 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) and (iii) 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".

In CIRO Bulletin 24-0067, we propose to repeal notes 13 to 15 and replace with notes 13 to 16 as follows in IDPC Form 1, which, once approved, we will incorporate into DC Form 1:

(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 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".

Dealer Member's name

Date

### Analysis of securities owned and sold short at market value

			Market value		_
			Long	Short	Margin required
		<u>Notes</u>	C\$000's	C\$000's	C\$000's
Catego	ry				
1.	- Money market				
	Accrued interest				Nil
	Total money market				
2.	Debt				_
	Accrued interest				Nil
	Total debt				
3.	Equities				
	Accrued interest on convertible debentures				Nil
	Total equities				
<u>4.</u>	Money market mutual funds			<u>Nil</u>	
	Other mutual funds			Nil	
	<u>Total mutual funds</u>			<u>Nil</u>	_
<u>4.<u>5.</u></u>	Options				
<del>5.<u>6.</u></del>	Futures contracts		Nil	Nil	
<del>6.<u>7.</u></del>	Over-the-counter derivatives				
<del>7.<u>8.</u></del>	Registered traders, specialists and market makers		Nil	Nil	
<u>9.</u>	<u>Other</u>				
<del>8.<u>10.</u></del>	Total				
			<u> </u>	<del>A-52<u>A-53</u></del>	<del>B-10<u>B-11</u></del>
<del>9.<u>11.</u></del>	<b>Less</b> : Securities, including accrued interest, segregated for client free credit ratio calculation		A-8 and <del>DE</del> -Sec. D- 2		
<del>10.12.</del>	Adjusted total		_		
±v: <u>±£:</u>			A-7		

### Supplementary information

- 11.13. Market value of securities included above but held on deposit as variable base deposits or margin deposits with acceptable clearing corporations or regulated entities or as a comfort deposit with a carrying broker
- <u>12.14.</u> Margin reduction from offsets against *Trader* reserves and PDO guarantees

# Form 1, Part II – Schedule 2 Notes and instructions

### (1) Valuation and margin rates

All securities are to be valued at *market* (see general notes and definitions)<u>value</u> as of the reporting date. The margin rates to be used are those outlined in *Corporation requirements*.

### (2) All securities owned and sold short

Schedule 2 summarizes all securities owned and sold short by the categories indicated. Details that must be included for each category are total long *market value*, total short *market value* and *total margin required* as indicated. <u>Where a Dealer</u> <u>Member invests its excess cash in investment product positions, such positions are considered to be inventory positions and must be reported on Schedule 2.</u>

### (3) Margining of option positions

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

### (4) Request for detailed information

The examiners of the *Corporation* may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

#### (5) Margin offsets

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

(6) Line 1 - Money market is to include Canadian & US treasury bills, bankers acceptances, bank paper (domestic & foreign), municipal and commercial paper or other similar instruments, except money market mutual funds which should be reported on Line 4.

#### (7) Supplementary instructions for reporting money market commitments:

"Market price" for money market commitments (fixed-term repurchases, calls, etc.) shall be calculated as follows:

- (i) Fixed date repurchases (no borrower call feature) the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
- (ii) Open repurchases (no borrower call feature) prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (i) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
- (iii) Repurchase with borrower call features the market price is the borrower call price. No margin is required where the total consideration for which the holder can put the security back to the dealer is less than the total consideration for which the dealer may put the security back to the issuer. However, where a holder consideration exceeds dealer consideration (the dealer has a loss), the margin required is the lesser of:
  - (a) the prescribed rate appropriate to the term of the security, and
  - (b) the spread between holder consideration and dealer consideration (the loss) based on the call features subject to a minimum of 1/4 of 1% margin.
- (8) Line 78 Registered traders, specialists and market makers margin requirements are:
  - (i) The minimum margin requirement for each Toronto Stock Exchange (TSX) registered trader is \$50,000.
  - (ii) The minimum margin requirement for each MX registered specialist is the lesser of \$50,000 or an amount sufficient to

## Form 1, Part II – Schedule 2 Notes and instructions (Continued)

assume a position of twenty board lots of each security in which such specialist is registered, subject to a maximum of \$25,000 per issuer.

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

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

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

(9) (9) Line 9 - The following <u>11</u> - Report securities are eligible for client the Dealer Member has segregated to meet free credit segregation purposes, provided they are segregated and held separate and apart from the Dealer Member's property:requirements on Statement F. Eligible securities are described in Statement F notes and instructions.

Securities eligible for client free credit segregation purposes			
<del>Category</del>		Minimum designated rating organization current credit rating	<del>Qualification(s)</del>
<del>1.</del>	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.	<del>Not applicable (N/A)</del>	Not applicable (N/A)
<del>2.</del>	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
<del>3.</del>	<del>Canadian bank paper with an original maturity</del> of 1 year or less.	<del>R-1(low), F1, P-1, A-</del> <del>1(low)</del>	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 notes and instructions to Schedule 14, are not eligible.

(10) (10) Line 1214 - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Dealer Member* and the trader permitting the *Dealer Member* to recover realized or unrealized losses from the IA reserve account. Include margin reductions arising from *guarantees* relating to inventory accounts by partners, *Directors*, and *Officers* of the *Dealer Member* (PDO Guarantees). Dealer Member's name

Date

### Margin for concentration in underwriting commitments

Individual concentration

Description [see note 3]	Market value C\$000's	Normal margin C\$000's	40% of Net allowable assets C\$000's	Excess C\$000's	Margin already provided C\$000's [see note 2]	Concentration margin C\$000's
1. Subtotal						

### **Overall concentration**

Description [see note 5]	Market value C\$000's	Normal margin C\$000's	100% of Net allowable assets C\$000's	Excess C\$000's	Margin already provided C\$000's [see note 4]	Concentration margin C\$000's
2. Subtotal						

3. Concentration margin [Sum of lines 1 and 2]

<del>B-11<u>B-12</u></del>

# Form 1, Part II – Schedule 2A Notes and instructions

- (1) This schedule must be completed for underwriting commitments requiring concentration margin.
- (2) Individual commitment concentration

Where the normal margin required on any one commitment is reduced due to either:

- (i) the use of a new issue letter, or
- (ii) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed).

and the normal margin on the commitment exceeds 40% of the *Dealer Member's* net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on the individual underwriting position to which such excess relates.

- (3) Report details by individual commitments.
- (4) Overall commitment concentration

Where the normal margin required on some or all commitments is reduced due to either:

- (i) the use of a new issue letter, or
- (ii) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed).

and the aggregate normal margin on these commitments exceeds 100% of the *Dealer Member's* net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on such commitments and by the amount, if any, already provided for individual concentration.

(5) It is not necessary to report details of individual commitments. Report the aggregate totals.

Dealer Member's name

Date

#### Underwriting issues margined at less than the normal margin rates

		Par value or nu	Par value or number of shares		Market value				
Description	Maturity date	Long C\$000's	Short C\$000's	Market price	Long C\$000's	Short C\$000's	Effective margin rate %	Margin required C\$000's	Expiry date
Totals									

### Notes and instructions:

- (1) The purpose of this schedule is to disclose all unsold portions of new and secondary issues held by underwriters that are margined at less than the normal margin rates applicable to those securities as permitted in the *Corporation requirements*. Expiry date refers to the date of any out clause or the expiry date on a bank letter.
- (2) For positions in this schedule, the margin rate shall give effect to any bank letters or out clauses, and the margin required shall indicate the margin remaining after offsets and/or hedging strategies.

Mutual Fund Dealer Member's name

Date

Analysis of clients' trading accounts – Mutual Fund Dealer Members

		Bala		
		<u>Debit</u>	Credit	<u>Margin</u>
	<u>Category</u>	<u>C\$000's</u>	<u>C\$000's</u>	<u>C\$000's</u>
<u>1.</u>	Acceptable institutions			
<u>2.</u>	Acceptable counterparties			
<u>3.</u>	Other clients:			
	<u>(a) non-registered cash accounts</u>			
	(b) RRSP and other registered cash accounts			
<u>4.</u>	Advanced Redemption Proceeds Receivable:			
	<u>(a) non-registered accounts</u>		<u>N/A</u>	
	(b) RRSP and other registered accounts		<u>N/A</u>	
<u>5.</u>	Total			
		<u>A-9</u>	<u>A-54</u>	<u>B-13</u>

# 6. Supplementary disclosure:

(a) Name of RRSP trustee(s)



# Form 1, Part II – Schedule 3 Notes and instructions

- (1) This schedule must be completed by a Mutual Fund Dealer Member that is not offering margin lending to a client under subsection 5112(2). Although the Mutual Fund Dealer Member is not offering margin lending, the Mutual Fund Dealer Member may inadvertently extend credit to a client when client payments fail (e.g. NSF cheques). When any portion of the money balance in the account of the client is overdue the Mutual Fund Dealer Member must provide margin on this schedule.
- (2) A Mutual Fund Dealer Member may choose to calculate the amount of margin as 100% of the client debit balance, instead of applying the different margin methodologies described in Notes 3 to 6. If the Mutual Fund Dealer Member applies the equity deficiency calculation in Note 5(i), the Mutual Fund Dealer Member must report any concentration exposures on Schedule 11 in accordance with the same requirements as Investment Dealer Members.
- (3) Line 1 No mark to market or margin is required on accounts with acceptable institutions except any transaction which has not been confirmed by an acceptable institution within 15 business days of the trade date. Any transaction which has not been confirmed by an acceptable institution within 15 business days of the trade, shall be margined.
- (4) Line 2 In the case of a transaction in the account of an acceptable counterparty, the amount of margin to be provided, commencing on settlement date, may be calculated as the equity deficiency, which is equal to the difference between (i) the net market value of all settlement date investment product 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, shall be margined.

- (5) Line 3(a) When any portion of the money balance in an account of a client, other than an acceptable institution or acceptable counterparty or regulated entity, is overdue for a period of less than 6 business days past regular settlement date, the following margin requirements may be applied:
  - (i) Commencing on regular settlement date, the margin required is the equity deficiency, if any, calculated by determining the difference between (a) the net market value of all settlement date investment product positions in the client's account(s) and (b) the net money balance on a settlement date basis in the same account(s), and
  - (ii) Commencing on 6 business days or more past regular settlement date, the amount of margin to be provided shall be 100% of the debit balance.
- (6) Line 3(b) In circumstances where a debit balance arises in a registered account, the following margin requirements may be applied:
  - (i) where the debit balance is identifiable to a particular *investment product* transaction, the margin requirements as set out in Note 5 may be applied to the transaction,
  - (ii) where the debit balance arises from items that are contemplated by the *Corporation requirements* and *securities laws* and are set out in the trust agreement between the *Mutual Fund Dealer Member* and the individual planholder, such as a payment of administrative fees, which empowers a trustee to liquate trust property, then the margin account rules may be applied,
  - (iii) where the debit balance arises from other items not considered above, the balance must be treated as unsecured and 100% margin provided.
- (7) Line 4 Where a Mutual Fund Dealer Member advances redemption proceeds to a client in accordance with section 5112(1), these proceeds are reported as debit balances on Line 4(a) and (b). The margin required to be reported by the Mutual Fund Dealer Member is equal to the amount of the advanced redemption proceeds.
- (8) Line 6 The name of the RRSP trustee(s) used by the *Mutual Fund Dealer Member* must be provided. The RRSP or similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).

Investment Dealer Member's name

Date

### Analysis of clients' trading accounts long and short - Investment Dealer Members

		Bale	_	
		Debit	Credit	Amount required to fully margin
	Category	C\$000's	C\$000's	C\$000's
1.	Acceptable institutions			
2.	Acceptable counterparties			
3.	Other clients:			
	(a) Margin accounts			
	(b) Cash accounts			
	(c) Unsecured debits and shorts		N/A	
4.	Futures accounts			
5.	Margin on extended settlements	N/A	N/A	
6.	Free credits	N/A		N/A
			<mark>₽E</mark> -Sec. A-2	
6.	(a) Free credits, pending trades [if applicable]	N/A		N/A
7.	RRSP and other similar accounts			 
8.	Less - allowance for bad debts			
9.	Total			
		A-9	A- <del>53<u>54</u></del>	B- <del>12</del> 13

### 10. Supplementary disclosure:

- (a) Name of RRSP trustee(s)
  - 1. \_\_\_\_\_\_ 2. \_\_\_\_\_ 3. \_\_\_\_\_

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

## Form 1, Part 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. <u>Investment Dealer Members must report their client balances and associated margin</u> requirements on this schedule. If a Mutual Fund Dealer Member chooses to offer margin lending to its clients under <u>subsection 5112(2)</u>, the Mutual Fund Dealer Member must report their client balances and associated margin requirements on this schedule in accordance with the same requirements as Investment Dealer Members.
- (2) Lines 1 to 4 Balances including *extended settlement date* transactions should be reported on these lines. However, the margin related to such extended settlements should be calculated as described in note 12 and reported on Line 5.

In CIRO Bulletin 24-0067, we propose to amend note (2) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (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 (15790(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.

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

(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 (15790(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 <u>securityinvestment product</u> 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:
  - 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 <u>securities</u><u>investment</u> <u>products</u>, 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 investment products 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 investment products 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.

In CIRO Bulletin 24-0067, we propose to add the additional clause under note (5) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (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.

<u>Trade date margining</u>: For<u>Investment</u> 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 <u>securityinvestment product</u> 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 <u>Investment</u> Dealer Member on or before settlement date for delivery by the <u>Investment</u> 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 <u>Investment</u> Dealer Member gives notice to the customer that the <u>securitiesinvestment products</u> 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 <u>Investment</u> Dealer Member on or before settlement date for receipt of <u>securities</u> <u>investment products</u> by the <u>Investment</u> <u>Dealer</u> 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 <u>securities</u> <u>investment products</u> held long in any cash account of the customer with the <u>Investment</u> 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 <u>Investment</u> 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 investment product in any cash account of the customer with the <u>Investment</u> 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 <u>Investment</u> 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 <u>Investment</u> 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 <u>Investment</u> 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 <u>Investment</u> 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 <u>Investment\_Dealer Member</u>, 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 <u>Investment\_Dealer Member</u> to one or more newly established margin accounts of the customer with the <u>Investment\_Dealer Member</u>, 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 <u>security*investment product*</u> 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:

- (IA) Securities that currently have a margin rate of 60% or less, are weighted at 1.000
- (HB) Listed securities with a margin rate greater than 60% are weighted as 0.333
- (₩<u>C</u>) Nasdaq National Market® and Nasdaq SmallCap Market<sup>SM</sup> securities with a margin rate of more than 60% are weighted as 0.333
- $(\frac{1}{2})$  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.

In CIRO Bulletin 24-0067, we propose to add the additional clause under note (8)(i) as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- (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<u>investment product</u> 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 <u>Investment</u> 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 <u>Investment</u> Dealer Member and pay for the <u>securitiesinvestment</u> <u>products</u> to be delivered, and in such event settlement shall be considered provided for by the customer.

(iv) Trade date margining

For <u>Investment</u> 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<u>investment product</u> 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<u>investment product</u> 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 <u>an Investment</u> Dealer Member and either an acceptable counterparty or any other counterparty (other than an acceptable institution (see note 3) or regulated entity (see Schedule <u>56</u>)), the position shall be margined as follows, commencing on regular settlement date:

Calendar days after regular settlement <sup>1</sup>					
Counterparty	30 days or less Greater than 30 days				
Acceptable counterparty	Market value deficiency <sup>2</sup>	Margin			
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying <del>securities<u>investment products</u>)</del>			

- <sup>1</sup> Calendar days refers to the original term of the extended settlement transaction.
- <sup>2</sup> 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.<u>Investment</u> 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 <u>Investment</u> 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 <u>Investment</u> 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 7 In circumstances where a debit balance arises in an RRSP or similar registered account, the following margin requirements apply:
  - (i) where the debit balance is identifiable to a particular *investment product* transaction, the cash account rules as set out in Note 8(i) may be applied to the transaction,
  - (ii) where the debit balance arises from items that are contemplated by the Corporation requirements and securities laws and are set out in the trust agreement between the Investment Dealer Member and the individual planholder, such as a payment of administrative fees, which empowers a trustee to liquate trust property, then the margin account rules may be applied,
  - (iii) where the debit balance arises from other items not considered above, the balance must be treated as unsecured and 100% margin provided.
- (16) Line 8 Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 9 are shown "net".
- (1617) Line 10(a) The name of the RRSP trustee(s) used by the *Investment Dealer Member* must be provided. The RRSP or similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).
- (18) Line 10(b) Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the <u>Investment</u> Dealer Member and the IA permitting the <u>Investment</u> 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 <u>Investment</u> Dealer Member (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the <u>Investment</u> Dealer Member.

Dealer Member's name

Date

List of ten largest valuesettlement date trading balances with acceptable institutions and acceptable counterparties

[excluding balances less than 20% of *risk adjusted capital* or \$250,000, whichever is the smaller]

On approved acceptable institutions/acceptable counterparty list

Name of institution	Yes/No	Acceptable institution	Acceptable counterparty	Debits C\$000's	Credits C\$000's	Margin C\$000's

#### Notes and instructions:

- (1) This schedule is to report only ten balances with an indication whether each balance is with an acceptable institution or an acceptable counterparty.
- (2) For balances with *acceptable institutions* and *acceptable counterparties* not on the approved lists, as published by the *Corporation*, please provide their latest audited financial statements.

Mutual Fund Dealer Member's name

Date

### Analysis of brokers' and dealers' trading balances – Mutual Fund Dealer Members

		Bala		
	<u>Category</u>	<u>Debit</u> <u>C\$000's</u>	<u>Credit</u> <u>C\$000's</u>	<u>Amount required</u> <u>to fully margin</u> <u>C\$000's</u>
<u>1.</u>	<u>Regulated entities [see notes]</u>			
<u>2.</u>	<ul> <li>(a) Dealer Member's own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the Corporation</li> <li>(b) Dealer Member's own affiliated/related partnerships or corporations - not approved [see note 5 - give details]</li> </ul>			
<u>3.</u>	<u>Mutual funds or their agents [see note 6]</u>			
<u>4.</u>	<u>Total</u>	<u>A-10</u>	<u>A-55</u>	<u>B-14</u>

### Form 1, Part II – Schedule 6 Notes and instructions

- (1) This schedule is to include amounts owed to the *Mutual Fund Dealer Member* for the sale or redemption of nominee name client securities and amounts owed by the *Mutual Fund Dealer Member* for the purchase of nominee name client securities.
- (2) Lines 1 and 2 where applicable Balances may be reported on a "net" basis (broker by broker) or on a "gross" basis. Balances with a broker or dealer must not be netted against those with its affiliated company.
- (3) Line 1 This line is not to include non-arms' length transactions which are to be reported on Line 2. Margin on balances with regulated entities must be provided as follows:
  - (i) In the case of a regular settlement date transaction in the account of a regulated entity the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency of (a) the net market value of all settlement date security positions in the broker's accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an extended settlement date transaction between a Mutual Fund Dealer Member and a regulated entity, commencing on regular settlement date the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
  - (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 *business days* of the trade date shall be margined.
- (4) Line 2(a) Margin must be provided as outlined for regulated entities in note 3 above.
- (5) Line 2(b) If the affiliated/related company qualifies as a regulated entity, then margin must be provided as outlined for regulated entities in note 3 above.

<u>If the affiliated/related company qualifies as an acceptable counterparty, then margin must be provided in the manner</u> <u>outlined in the notes and instructions to Schedule 3 for acceptable counterparties.</u>

<u>If neither of the above, then margin must be provided in the manner outlined for other clients (clients other than regulated</u> <u>entities, acceptable counterparties and acceptable institutions) in the notes and instructions to Schedule 3.</u>

(6) Line 3 - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of acceptable counterparties, or as regular client accounts.

Investment Dealer Member's name

Date

# Analysis of brokers' and dealerdealers' trading balances - Investment Dealer Members

		Ba	lances	
	Category	Debit C\$000's	Credit C\$000's	Amount required to fully margin C\$000's
		C\$000 S	C\$000 S	C\$000 S
1.	Acceptable clearing corporations trading balances [see notes]			
2.	Regulated entities [see notes]			
3.	(a) Dealer Member's own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the Corporation			
	(b) Dealer Member's own affiliated/related partnerships or corporations - not approved [see note 6 - give details]			
4.	<ul> <li>(a) Other brokers and dealers not qualifying as regulated entities but qualifying as acceptable counterparties [see note 7 - give details]</li> </ul>			
	(b) Other brokers and dealers not qualifying as regulated entities or acceptable counterparties [see note 8 - give details]			
5.	Mutual funds or their agents [see note 9]			
6.	Total			
		A-10	A- <mark>54</mark> 55	B- <del>13</del> 14

### Form 1, Part II – Schedule <u>57</u> Notes and instructions

- (1) This schedule is <u>only</u> to include <u>the Investment Dealer Member's trading balances with regulated entities, acceptable</u> <u>clearing corporations</u>, other brokers and mutual funds for ordinary security trading transactions. All security borrowing or lending transactions should be disclosed on Schedules 1 or <u>79</u>.
- (2) Lines 1, 2, 3 and 4 where applicable Balances may be reported on a "net" basis (broker by broker) or on a "gross" basis. Balances with a broker or dealer must not be netted against those with its *affiliated* company.
- (3) Line 1 For definition, see general notes and definitions.

Margin on such balances should be provided as follows:

- (i) Trades settling through a net settlement system should be treated as if the other party to the trade was an *acceptable institution*. For example, CNS balances with *CDS*, and CNS balances with National Securities Clearing Corporation.
- (ii) All transactions done through *CDS* outside of the CNS system should be treated as if with a single counterparty to be classified as an *acceptable counterparty* (even if some or all of the other parties qualify as an *acceptable institution*).
- (iii) Other trades settling on a transaction by transaction basis should be treated as if they were to be settled directly with the other party to the trade. For example, balances arising from trades settled through National Securities Clearing Corporation's Netted Balance Order or Trade-for-Trade Services, and balances arising from trades settled through Euroclear and Cedel.
- (4) Line 2 This line is not to include non-arms' length transactions which are to be reported on Line 3. Margin on balances with *regulated entities*, except futures accounts, must be provided as follows:
  - (i) In the case of a regular settlement date transaction in the account of a regulated entity the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency of (a) the net market value of all settlement date security positions in the broker's accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an extended settlement date transaction between <u>an Investment Dealer</u> Member and a regulated entity, commencing on regular settlement date the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
  - (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 *business days* of the trade date shall be margined.

Futures accounts with *regulated entities* containing positions and offsets in *futures contracts* or *futures contract options* are to be margined in accordance with subsection 5790(1) and margin deficiencies are to be reported on this line in accordance with subsection 5790(2).

- (5) Line 3(a) Margin must be provided as outlined for *regulated entities* in note 4 above.
- (6) Line 3(b) If the *affiliated/related company* qualifies as a *regulated entity*, then margin must be provided as outlined for *regulated entities* in note 4 above.

If the *affiliated/related company* qualifies as an *acceptable counterparty*, then margin must be provided in the manner outlined in the notes and instructions to Schedule 4 for *acceptable counterparties*.

If neither of the above, then margin must be provided in the manner outlined for other clients (clients other than *regulated entities*, *acceptable counterparties* and *acceptable institutions*) in the notes and instructions to Schedule 4.

(7) Line 4(a) - All balances must be margined in the same way as accounts of acceptable counterparties (see notes and instructions to Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts*, options and short sale deposits should also be reported on this line. This line should also include balances with approved inter-dealer bond brokers.

Approved *inter-dealer bond brokers* are those inter-dealer bond dealers that are approved by the *Corporation* and the Bourse de Montréal Inc. The list of approved *inter-dealer bond brokers* will be published from time to time through the issuance of a regulatory notice.

(8) Line 4(b) - All balances must be margined in the same way as regular clients' accounts (see notes and instructions to

Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts*, *options* and short sale deposits should also be reported on this line. This line should also include balances with *inter-dealer bond brokers* which are not on the list of approved *inter-dealer bond brokers*.

(9) Line 5 - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of *acceptable counterparties*, or as regular client accounts.

Dealer Member's name

Date

### Current income taxes

				C\$000's
Inc	ome t	ax liability (asset)		
1.		Balance payable (recoverable) at last year-end		
2.	(a)	Payments (made) or received relating to above balance		
	(b)	Adjustments, including reassessments, relating to prior periods [give details if significant]		
3.		Total adjustment to prior years' payable (recoverable) taxes during current year		
4.		Subtotal [add or subtract Line 3 from Line 1]		
5.		Income tax expense (recovery)	<del>E-37<u>D-41</u></del>	
6.		Less: Current installments		
7.		Other adjustments [give details if significant]		
8.		Total adjustment for current year's taxes		
9.	Toto	l liability (asset) [add or subtract Line 8 from Line 4]		
				A- <del>13<u>14</u>, if asset</del>
				A- <mark>56<u>58</u>, if liability</mark>

Dealer Member's name

Date

#### **Tax recoveries**

		Reference	C\$000's
А.	Tax recovery for risk adjusted capital		
1.	Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. <del>6<u>8</u>, Line 5</del>	
2.	Commission and/or fees receivable (non-allowable assets) of \$ multiplied by an effective corporate tax rate of%	A- <del>21</del> 23	
3.	Tax recovery - Assets [100% of lesser of Lines 1 and 2]		
4.	Balance of current income tax expense available for margin and securities concentration charge tax recovery [Line 1 minus Line 3]	;	
5.	Recoverable taxes from preceding three years of \$ net of current year tax recovery (if applicable) of \$		
6.	Total available for margin tax recovery [Line 4 plus Line 5]		
7.	<i>Total margin required</i> of \$ multiplied by an effective corporate tax rate of%	B- <del>24<u>26</u></del>	
8.	Tax recovery - Margin [75% of lesser of Lines 6 and 7]		
9.	Total tax recovery before tax recovery on securities concentration charge		
	[Line 3 plus Line 8]		<del>B-26</del> B-28
10.	Balance of taxes available for securities concentration charge tax recovery [Line 6 minus Line 8, must be greater than 0, else N/A]		
11.	Total securities concentration charge of \$ multiplied by an effective corporate tax rate of%	<u>Sch. 10/</u> Sch. <u>911</u>	
12.	Tax recovery – Securities concentration charge [75% of lesser of Lines 10 and 11]		
			<del>B-28<u>B-30</u></del>
13.	Total tax recovery risk adjusted capital [Line 3 plus Line 8 plus Line 12]		
			C-3
в.	Tax recovery for early warning calculation:		
1.	Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. <del>6<u>8</u>, Line 5</del>	
2.	Commission and/or fees receivable (allowable assets)	A- <del>15<u>16</u></del>	
3.	Commission and/or fees receivable (non-allowable assets)	A- <del>21</del> 23	
4.	Subtotal [Line 2 plus Line 3]		
5.	Line 4 multiplied by an effective corporate tax rate of%		
6.	Tax recovery – Income accruals [100% of lesser of Lines 1 and 5]		
			C-9

# Form 1, Part II – Schedule <u>68</u>A Notes and instructions

- (1) Section A Assets: The purpose of this calculation is to tax effect identifiable revenue related receivables which have been classified as non-allowable assets for capital purposes. In other words, the calculation gives recognition to the fact that in recording the receivable the *Dealer Member* generated revenue against which a tax provision has been set up.
- (2) Section A Margin: The purpose of this calculation is to reduce the provision for contingent market losses on client and inventory positions (i.e. margin) by the appropriate allowance for taxes recoverable in the event of realization of such a market loss.
- (3) Line A1 If the *Dealer Member* has no income tax expense due to being in a net tax recovery position, then no tax recovery on assets is allowed for *risk adjusted capital* purposes.
- (4) Line A3 If the Dealer Member has no income tax expense, then insert N/A on this line.
- (5) Line A5 The balance reported as the recoverable taxes from preceding three years should be the total taxes paid in the three preceding years, hence available for recovery. If the *Dealer Member* has reported a balance on Line A1 above, then no balance should be reported as the current year tax recovery on this line.
- (6) Line B1 If the *Dealer Member* has no income tax expense due to being in a net tax recovery position, then no tax recovery on income accruals is allowed for early warning purposes.

Dealer Member's name

#### Date

### Analysis of overdrafts, loans, securities loaned and repurchase agreements

		Amount of loan payable or cash received as collateral C\$000's [see note 3]	Market value of securities received as collateral C\$000's [see note 4]	Market value of securities delivered as collateral or loaned C\$000's [see note 4]	Required to margin C\$000's
<del>1.</del>	<del>Bank overdrafts</del>		<del>N/A</del>	<del>N/A</del>	Nil
1.	buik overarants				
	Loans payable:				
<del>2.<u>1.</u></del>	Acceptable institutions		N/A		Nil
<del>3.<u>2.</u></del>	Acceptable counterparties		N/A		
4. <u>3.</u>	Regulated entities		N/A		
<u>5.4.</u>	Others		N/A		
6- <u>5.</u> 7. <u>6.</u> 8- <u>7.</u> 9. <u>8.</u>	Securities loaned: Acceptable institutions Acceptable counterparties Regulated entities Others				Nil
	Repurchase agreements:				
<del>10.<u>9.</u></del>	Acceptable institutions		N/A		Nil
<del>11.<u>10.</u></del>	Acceptable counterparties		N/A		
<del>12.<u>11.</u></del>	Regulated entities		N/A		
<del>13.<u>12.</u></del>	Others		N/A		
	Total [Sum of Lines 1 through				
<u>14.<u>13.</u></u>	<del>13</del> 14]	<u>A-51A-52</u>			<del>B-14<u>B-15</u></del>

# Form 1, Part II – Schedule 79 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 <i>Dealer Member</i> to borrow cash and deliver securities as collateral to the counterparty.					
"excess collateral deficiency"	<ul> <li>(i) For a <i>cash loan payable</i>, any excess of the <i>market value</i> of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan, or</li> <li>(ii) For a <i>securities loan arrangement</i>, any excess of the <i>market value</i> of the securities loaned over the <i>market value</i> of securities or the amount of cash received from the transaction counterparty as collateral.</li> </ul>					
"securities loan arrangement"	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> 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 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.

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

In CIRO Bulletin 24-0067, we propose to repeal and replace note 5 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

### (5) Written agreement requirements

- Any written agreement for a cash loan payable, securities loan arrangement or securities repurchase arrangement must:
- 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 margin¹		
Acceptable counterparty	Excess collateral deficiency <sup>1</sup>		
Regulated entity	Excess collateral deficiency <sup>1</sup>		
Other	Margin		

<sup>1</sup> 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 rehypothecate the loaned securities,

#### Notes and instructions (Continued)

- (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.

#### Notes and instructions (Continued)

#### (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,
  - (III) 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 <sup>1</sup>				
Acceptable counterparty	Excess collateral deficiency <sup>1</sup>				
Regulated entity	Excess collateral deficiency <sup>1</sup>				
Other	Margin				

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

<sup>1</sup> 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) 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 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

#### Notes and instructions (Continued)

cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

# (iii) 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 5 and 8(i)) are stipulated in the written agreements:
  - 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) 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 (ii) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in (iii) are not all met.

#### (v) 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 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 <sup>1</sup> Greater than calendar 30 days of regular settlement <sup>1</sup>			
Acceptable institution	No margin <sup>2</sup>			
Acceptable counterparty	Market value deficiency <sup>2</sup> Margin			
Regulated entity	Market value deficiency <sup>2</sup>	Margin		
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)		

<sup>1</sup> 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.

<sup>2</sup> Any transaction which has not been confirmed by an acceptable institution, acceptable counterparty or

#### Notes and instructions (Continued)

- <sup>1</sup> 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. *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 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) or (iii) 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) or (iii) are not met, the counterparty is the underlying principal buyer,

Transaction counterparty type	Margin required
Acceptable institution	No margin <sup>1</sup>
Acceptable counterparty	Market value deficiency <sup>1</sup>
Regulated entity	Market value deficiency <sup>1</sup>
Other	Margin

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

<sup>1</sup> 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.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 8 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

#### (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

#### Notes and instructions (Continued)

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:
  - 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 <sup>1</sup>	Greater than calendar 30 days after regular settlement <sup>1</sup>		
Acceptable institution	No margin <sup>2</sup>			
Acceptable counterparty	Market value deficiency <sup>2</sup>	Margin		
Regulated entity	Market value deficiency <sup>2</sup>	Margin		
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)		

- <sup>1</sup> 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.
- <sup>2</sup> 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 <sup>1</sup>			
Acceptable counterparty	Market value deficiency <sup>1</sup>			
Regulated entity	Market value deficiency <sup>1</sup>			
Other	Margin			
1 Any transaction which has not been confirmed by an accortable institution, accortable counterparty or				

<sup>4</sup> 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 32, 43, 76 and 87 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 1110 and 1211 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 54, 98 and 1312 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 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.

In CIRO Bulletin 24-0067, we propose to repeal and replace note 13 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(13) Lines 54, 98 and 1312 - In the case of a cash loan payable or a securities loan or a repurchase arrangement / transaction

#### Notes and instructions (Continued)

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 21, 32 and 43 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 54, 98, and 1312 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) and (iii) 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".

In CIRO Bulletin 24-0067, we propose to repeal and replace note 15 in IDPC Form 1 with the following, which, once approved, we will incorporate into DC Form 1:

(15) Lines 54, 98, and 1312 - 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".

Dealer Member's name

Date

# Cash and securities borrowing and lending arrangements concentration charge

		Reference	C\$000's
1.	Market value deficiency amount relating to loans receivable from acceptable counterparties, net of legal offsets and margin already provided	Sch. 1, Line 2	
2.	Market value deficiency amount relating to loans receivable from regulated entities, net of legal offsets and margin already provided	Sch. 1, Line 3	
3.	Market value deficiency amount relating to securities borrowed from acceptable counterparties, net of legal offsets and margin already provided	Sch. 1, Line 6	
4.	Market value deficiency amount relating to securities borrowed from regulated entities, net of legal offsets and margin already provided	Sch. 1, Line 7	
5.	Market value deficiency amount relating to loans payable to acceptable counterparties, net of legal offsets and margin already provided	Sch. 7 <u>9</u> , Line <del>3<u>2</u></del>	
6.	<i>Market value</i> deficiency amount relating to loans payable to <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 7 <u>9</u> , Line 4 <u>3</u>	
7.	Market value deficiency amount relating to securities lent to acceptable counterparties, net of legal offsets and margin already provided	Sch. <del>7<u>9</u>, Line 7<u>6</u></del>	
8.	<i>Market value</i> deficiency amount relating to securities lent to <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. <del>7<u>9</u>, Line <u>87</u></del>	
9.	Total market value deficiency exposure with <i>acceptable counterparties</i> and <i>regulated entities</i> , net of legal offsets and margin already provided [Sum of Lines 1 to 8]		
10.	Concentration threshold – 100% of net allowable assets		
11.	Concentration Charge [Excess of Line 9 over Line 10, otherwise nil]		B- <mark>21</mark> 23

#### Mutual Fund Dealer Member's name

			<u>Date</u>						
<u>Concentration of securities – Mutual Fund Dealer Members</u>									
Summary sheet									
	[Mutual Fund Dealer Member's own position (see Sch 10, note 2]								
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>			
	Final adjusted								
	<u>amount loaned</u> <u>C\$000's</u>					Concentration charge			
Description of issuer or precious	<u>[Sch. 10, note 5 and Sch.</u>	<u>Concentration test</u> identifier (Sch. 10A	Long / Short ("L" or	<b>Concentration</b>	<u>Schedule 10B, no#</u> of DROs used, if any	<u>C\$000's</u>			
metal positions	<u>10B notes 5, 6, 7 and 8]</u>	<u>or Sch. 10B)</u>	<u>"S")</u>	threshold	<u>[Sch. 10B, note 6]</u>	[Sch. 10, note 8]			
						<u>B-30</u>			

# Form 1, Part II – Schedule 10 Notes and instructions

#### Introduction

(1) The purpose of this schedule is to measure and provide appropriate provisions for securities concentration risk. Concentration exposures are tested according to either a General Security Test methodology (Schedule 10A) or a Debt Security Test methodology (Schedule 10B). The Schedule 10 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 10A and 10B, whether or not a concentration charge applies. If there are more than ten positions where a concentration exposure exists, then all such positions must be listed.

Schedule 10 applies only to inventory positions for *Mutual Fund Dealer Members* that do not offer margin lending or extensions of credit to client accounts. If a *Mutual Fund Dealer Member* chooses to offer margin to its clients under subsection 5112(2) or apply the equity deficiency calculation to client accounts under Schedule 3 Note 5(i), the *Mutual Fund Dealer Member* must report their concentration exposures on Schedule 11 in accordance with the same requirements as *Investment Dealer Members*.

The notes and instructions to Schedule 10 provide securities concentration calculation requirements, concentration thresholds, concentration charges, and other requirements that are applicable to both tests. Certain prescribed differences between the test methodologies are noted below, such as the calculation of the short position exposures and the maximum concentration charges, described in notes 3, 5(ii), and 10.

The notes and instructions to Schedules 10A and 10B provide more detail on the positions included for testing under each test. The notes and instructions to Schedule 10B detail adjustments applicable to the Debt Security Test.

#### Calculation requirements applicable to both tests, notes 2-11

- (2) The securities and precious metals positions included for exposure testing are those where an inventory position is being held.
- (3) For short positions reported on Schedule 10A, the loan value is the *market value* of the short position. For short positions reported on Schedule 10B, the loan value is the same as calculated for long positions.

#### **Dealer Member's own position**

(4) Mutual Fund Dealer Member's own inventory positions are to be reported on a trade date basis. All security positions that aualify for a margin offset may be eliminated.

#### Amount loaned

- (5) The Mutual Fund Dealer Member's own position reported is to be determined based on the long or short position that results in the largest amount loaned exposure.
  - (i) To determine the amount loaned on the long position exposure, calculate:
    - the loan value (calculated pursuant to the notes and instructions to Schedule 2) of the net long Mutual Fund Dealer Member's own position (if any).
  - (ii) To determine the amount loaned on the short position exposure reported on Schedule 10A, calculate:
    - the market value of the net short Mutual Fund Dealer Member's own position (if any).

<u>Calculate the amount loaned on the short position exposure reported on Schedule 10B according to the same</u> methodology described in note 5(i).

(iii) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

#### **Concentration thresholds**

(6) The following concentration thresholds apply:

### Notes and instructions (Continued)

Amount loaned issuer	Issuer classification or special application	Amount loaned concentration		
<u>classification</u>	<u>criteria</u>	threshold		
(i) Related or "non-arm's length" securities	Securities issued by:         (a)       the Mutual Fund Dealer Member, or         (b)       a company meeting all of the following thresholds:         •       Mutual Fund Dealer Member accounts are included in the consolidated financial statements.         •       the assets and revenue of the Mutual Fund Dealer Member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the Mutual Fund Dealer Member for the preceding fiscal year.	<u>One-third of the sum of the</u> <u>Mutual Fund Dealer Member's risk</u> <u>adjusted capital before securities</u> <u>concentration charge and</u> <u>minimum capital (Statement B,</u> <u>Line 8), as most recently</u> <u>calculated</u> ,		
<u>(ii) Non-related or arm's length</u> <u>marginable securities</u>	<u>Securities, or a precious metal position, other</u> <u>than those described in note 6(i) above.</u>	<u>Two-thirds of the sum of the</u> <u>Mutual Fund Dealer Member's risk</u> <u>adjusted capital before securities</u> <u>concentration charge and</u> <u>minimum capital (Statement B.</u> <u>Line 8), as most recently</u> <u>calculated.</u>		
(iii) Additional exposures	The following scenarios result in a reduced concentration threshold for any other issuer or other property position:         (a) Multiple violations: If the Mutual Fund Dealer Member has already incurred a concentration charge for an issuer position or precious metal position under notes 6(i), or 6(ii); or,         (b) Material exposures: If the Mutual Fund Dealer Member has already measured a concentration exposure on any one non-related issuer or a precious metal position in excess of one-half of the sum of risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.	One-half of the sum of the Mutual Fund Dealer Member's risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated. Any additional exposures for issuer positions classified under 6(i) are measured at one-third of the sum of the Mutual Fund Dealer Member's risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8), as most recently calculated.		

(7) The additional exposures threshold reductions detailed in note 6(iii) apply to all issuer positions tested under Schedule 10, including positions from the same issuer whose concentration exposures are calculated separately under Schedules 10A and 10B.

### **Concentration charge**

- (8) An amount equal to 150% of the excess of the final adjusted amount loaned over the concentration thresholds indicated in note 6 is required unless the excess is cleared within five *business days* of the date it first occurs.
- (9) For the purpose of calculating the concentration charges as required by notes 6(i), 6(ii), 6(iii), and 8 above, such calculations must be performed for the largest three issuer positions and precious metal positions originating from Schedule 10A and the largest three issuer positions originating from Schedule 10B, ranked by Final adjusted amount loaned in which there is a concentration exposure. Concentration exposures in issuer positions exceeding the thresholds described in notes 6(i) are ranked first on Schedule 10.

(10) For Schedule 10A positions, the concentration charge relating to long positions is limited to the loan value of the issuer security(ies) or precious metal position for which the charge is incurred. For Schedule 10B positions, the concentration charge is limited to the risk-weighted loan value of the issuer security(ies) as calculated for long positions, which is also applicable for short positions.

### <u>Other</u>

- (11) (i) Where there is an over exposure in a security or precious metal position and the concentration charge as referred to above would produce either a capital deficiency or an early warning violation, the *Mutual Fund Dealer Member* must report the over exposure situation to the *Corporation* on the date the over exposure first occurs.
  - (ii) A measure of discretion is left with the *Corporation* in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in "readily saleable quantities".

Mutual Fund Dealer Member's name

						_			
				<u>Date</u>					
	<u>Concentration of securities – Mutual Fund Dealer Members</u>								
				<u>ral Security Test</u>	10% 1 ( 0.1		104 0)]		
<u>LML</u>	<u>itual Fund Dealer Member's</u>	own position,	excluding debt secul	rities with a margin rate of	10% or less (see Sch.	<u>10, note 2 and Sch.</u>	<u>10A, note 3)]</u>		
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	
								<u>General Security</u>	
						Amount		<u>Test - exposure</u> greater than 1/2	
	<u>Dealer Member's</u>					<u>cleared within</u>	<u>Final adjusted</u>	RAC, or 1/3 RAC	
Description of Security	<u>own long/(short)</u>				<u>"Amount</u> loaned" C\$000's	<u>five business</u>	<u>amount</u>	(Yes/ or No)	
[Sch. 10A, note 2]	<u>C\$000's</u> [Sch. 10, note 4]	<u>Unit Price</u>	<u>Market value</u> <u>C\$000's</u>	Effective margin rate	[Sch. 10, note 5]	<u>days</u> C\$000's	<u>loaned</u> C\$000's	<u>[Sch. 10, notes 1</u> and 6]	
	<u>[301. 10, 11010 4]</u>		<u>C\$000 S</u>	Effective margin rate	<u>[361. 10, 10te 3]</u>	<u>C\$000 S</u>	<u>C\$000 S</u>		

## Form 1, Part II – Schedule 10A Notes and instructions

### General Security Test

- (1) Mutual Fund Dealer Members must disclose the largest ten issuer positions and precious metal positions subject to the General Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed.
- (2) An issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt, structured products or other securities of an issuer other than debt securities cited in note 3). Precious metal positions are also tested using the General Security Test methodology, and must include all certificates and bullion of the particular precious metal (gold, platinum or silver).

### (3) Exclude all:

- (i) debt securities with a normal margin requirement of 10% or less, and
- (ii) stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments.
- (4) An amount loaned exposure to diversified investment product positions may be treated as an amount loaned exposure to each of the individual securities comprising the basket. These amount loaned exposures may be reported by breaking down the diversified investment product position into its underlying constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each constituent security position held, sum:

(i) the individual security positions held, and

(ii) the constituent security position held.

(For example, if ABC security has a 7.3% weighting in a *diversified investment product*, the number of securities that represents 7.3% of the value of the *diversified investment product* position shall be reported as the constituent security position.)

Mutual Fund Dealer Member's name

## <u>Date</u>

### Concentration of securities – Mutual Fund Dealer Members

Debt Security Test

[Mutual Fund Dealer Member's own position, excluding positions reported on Schedule 10A (see Sch. 10, note 2)]

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>
<u>Description of security</u> [Sch. 10B, note 2]	<u>Dealer</u> <u>Member's</u> <u>own</u> <u>long/(short)</u> <u>C\$000's</u> [Sch. 10, note <u>4</u> ]	<u>Unit</u> Price	<u>Market value</u> <u>C\$000's</u>	<u>Effective</u> <u>margin</u> <u>rate</u>	<u>"Amount</u> <u>loaned"</u> <u>C\$000's</u> [Sch. 10, <u>note 5]</u>	Risk-weighting adjustment factor % [Sch. 10B, notes 5, 6, 7 and 8]	<u>Risk-weighted</u> <u>"amount</u> <u>loaned"(Column 6 x</u> <u>Column 7) C\$000's</u> [ <u>Sch. 10B, notes 5, 6,</u> <u>7 and 8]</u>	Amount cleared within five business days <u>C\$000's</u>	<u>Final adjusted</u> amount loaned <u>C\$000's</u>	<u>Debt Security Test –</u> <u>exposure greater than 1/2</u> <u>RAC, or 1/3 RAC (Yes or No)</u> <u>[Sch. 10, notes 1 and 6]</u>

## Form 1, Part II – Schedule 10B MFD Notes and instructions

### Debt Security Test

- (1) Mutual Fund Dealer Members must disclose the largest ten issuer positions subject to the Debt Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.
- (2) The Debt Security Test methodology applies to debt securities with a normal margin requirement of 10% or less, whose concentration exposures are calculated separately from the other securities of an issuer included for testing under the General Security Test. An issuer position must include all debt issuance classes or series of securities for an issuer (i.e. all long and short positions in debt securities with a normal margin requirement of 10% or less, other than debt securities cited in note 3).
- (3) Exclude non-commercial debt securities with a normal margin requirement of 10% or less and debt obligations and evidences of indebtedness with an original maturity of 1 year or less, as categorized below, that meet the following minimum designated rating organization current credit rating requirements and qualifications:

Exclus	ions from Schedule 10B		
<u>Categ</u>	<u>ory</u>	Minimum designated rating organization current credit rating	Qualification(s)
<u>1.</u>	Non-commercial debt securities with a normal margin         rate of less than 10%, issued or guaranteed by the         following:         • national governments of Canada, United         Kingdom, and United States         • Canadian provincial governments         • the International Bank for Reconstruction and         Development.         • Canadian and United Kingdom municipal         corporations	<u>Not applicable</u>	<u>Not applicable (N/A)</u>
<u>2.</u>	<u>Other non-commercial debt securities with a normal</u> margin rate of 10% or less	Ā	
<u>3.</u>	Debt obligations and other evidences of indebtedness with         an original maturity of 1 year or less, issued or guaranteed         by the following:         • A Canadian financial institution qualifying as an         acceptable institution         • A foreign financial institution qualifying as an         acceptable institution         acceptable institution	<u>R-1(low), F1, P-1, A-</u> <u>1(low)</u>	Structured finance products as defined in National Instrument 25- 101 are not eligible for exclusion

### Additional netting allowance for Mutual Fund Dealer Member's own position

(4) Security positions that qualify for a margin offset may be excluded, as detailed in Schedule 10, note 4. The remaining net long (short) Mutual Fund Dealer Member's own inventory position may be calculated on a net basis. The offsetting of positions is allowed if:

(i) the positions are of the same seniority, or

(ii) the short position is junior in the statutory creditor hierarchy, or contractually subordinated, to the long position.

### Additional amount loaned adjustments available for the Debt Security Test

## Form 1, Part II – Schedule 10B MFD Notes and instructions (Continued)

- (5) If the loan value of an issuer position does not exceed one-half (one-third in the case of an issuer position which qualifies under Schedule 10, note 6(i)) of the sum of the Mutual Fund Dealer Member's risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 8) as most recently calculated, the additional amount loaned adjustments and completion of the columns titled "Risk-weighting adjustment factor %" (Schedule 10B, Column 7), and "Risk-weighted amount loaned" (Schedule 10B, Column 8) is optional.
- (6) The amount loaned may be reduced by applying a risk-weighting adjustment factor if the *debt security(ies)* meets the minimum current credit requirement from at least one *designated rating organization* as indicated in the following table:

<u>Risk</u>	Risk-weighting adjustments for debt securities margined at 10% or less								
	<u>Minimum designated rating</u> organization rating	<u>Adjustment</u> <u>factor</u>	Multiple designated rating organization current credit ratings						
Long	<u>a term rating:</u>		If only one current credit rating, that rating applies.						
<u>1.</u>	AAA	<u>40%</u>	If two current credit ratings, the lower rating						
<u>2.</u>	<u>AA to A</u>	<u>50%</u>	applies.						
<u>3.</u>	BBB	<u>60%</u>	If more than two current credit ratings, refer to						
<u>4.</u>	Below BBB or not rated	<u>80%</u>	the highest two ratings and apply the lower						
<u>Shor</u>	<u>t term rating:</u>		<u>rating.</u>						
<u>5.</u>	<u>Above R-2, F3, P-3, A-3</u>	<u>40%</u>							
<u>6.</u>	<u>R-2, F3, P-3, A-3</u>	<u>60%</u>							
<u>7.</u>	Below R-2, F3, P-3, A-3 or not rated	<u>80%</u>							

- (7) In order to qualify for a risk-weighting adjustment factor, the following additional eligibility standards apply:
  - (i) commercial debt securities must be ranked senior to any outstanding equity securities from the same issuer in the statutory creditor hierarchy, or contractually
  - (ii) structured finance products as defined in National Instrument 25-101 are risk-weighted at 80%.

### 2-step methodology for determining risk-weighting adjustment factor

(8) Step 1: Calculate the issuer's risk-weighted amount loaned using the highest determined adjustment factor (i.e. lowest applicable DRO rating or not rated in note 6) for all debt issue exposures held for that issuer. If the risk-weighted amount loaned calculated in Step 1 does not exceed any of the concentration thresholds detailed in Schedule 10, notes 6(i), 6(ii), 6(iii), there is no need to make any additional risk-weighting calculations.

Step 2: Option to use a weighted average adjustment factor to calculate the risk-weighted amount loaned:

- calculate the weights for each applicable adjustment factor within the aggregate amount loaned exposure (Schedule 10B, Column 6) for the issuer.
- 2. multiply each adjustment factor by its weight in the aggregate amount loaned exposure.
- 3. add the weighted adjustment factors together to determine the weighted average adjustment factor.

Investment Dealer Member's name

#### Date

## Concentration of securities - Investment Dealer Members

Summary sheet

[excluding securities required to be in segregation or safekeeping (see Sch. 911, note 3)]

1	2	3	4	5	6	7
	Final adjusted amount loaned C\$000's					
Description of issuer or precious	[Sch. <u>911</u> , note 7 and Sch. <u>911</u> B notes 5, 6 and	Concentration test identifier (Sch. <u>911</u> A	Long / Short ("L" or	Concentration	Schedule <del>9<u>11</u>B, no#</del> of DROs used, if any	Concentration charge C\$000's
metal positions	7]	or Sch. <mark>9<u>11</u>B)</mark>	"S")	threshold	[Sch. <mark>9<u>11</u>B, note 5]</mark>	[Sch. <del>9<u>11</u>, note 10]</del>

<del>B-28<u>B-30</u></del>

## Form 1, Part II – Schedule <u>911</u> Notes and instructions

### Introduction

(1) The purpose of this schedule is to measure and provide appropriate provisions for securities concentration risk. Concentration exposures are tested according to either a General Security Test methodology (Schedule 911A) or a Debt Security Test methodology (Schedule 911B). The Schedule 911 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 911A and 911B, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.

Investment Dealer Members must report their concentration exposures on this schedule. If a Mutual Fund Dealer Member chooses to offer margin to its clients under subsection 5112(2) or apply the equity deficiency calculation to client accounts under Schedule 3 Note 5(i), the Mutual Fund Dealer Member must report their concentration exposures on this schedule in accordance with the same requirements as Investment Dealer Members.

The notes and instructions to Schedule <u>911</u> provide securities concentration calculation requirements, concentration thresholds, concentration charges, and other requirements that are applicable to both tests. Certain prescribed differences between the test methodologies are noted below, such as the calculation of the short position exposures and the maximum concentration charges, described in notes 4, 7(ii), and 12.

The notes and instructions to Schedules 911A and 911B provide more detail on the positions included for testing under each test. The notes and instructions to Schedule 911B detail additional adjustments applicable to the Debt Security Test.

### Calculation requirements applicable to both tests, notes 2-13

- (2) The securities and precious metals positions included for exposure testing are those where:
  - (i) loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account, or
  - (ii) an inventory position is being held.
- (3) Securities and precious metals that are required to be in segregation or safekeeping should not be included in the issuer position or precious metal position. Securities and precious metals that have been segregated, but are not required to be, can still be relied on by the <u>Investment</u> Dealer Member for loan value, and must be included in the issuer position and precious metal position.
- (4) For short positions reported on Schedule <u>911</u>A, the loan value is the *market value* of the short position. For short positions reported on Schedule <u>911</u>B, the loan value is the same as calculated for long positions.

### **Client position**

- (5) (i) Client positions are to be reported on a settlement date basis for client accounts including positions in margin accounts, regular cash accounts (when any transaction in the account is outstanding after settlement date) and delivery against payment and receipt against payment accounts (when any transaction in the account is outstanding after settlement date). Within each client account, security positions and precious metal positions that qualify for a margin offset may be eliminated.
  - (ii) Positions in delivery against payment and receipt against payment accounts with acceptable institutions, acceptable counterparties, or regulated entities resulting from transactions that are outstanding less than ten business days past settlement date are not to be included in the positions reported. If the transaction has been outstanding ten business days or more past settlement and is not confirmed for clearing through an acceptable clearing corporation or not confirmed by the acceptable institution, acceptable counterparty or regulated entity, then the position must be included in the position reported.

### Dealer Member's own position

(6) (i) <u>Investment</u> Dealer Member's own inventory positions are to be reported on a trade date basis, including new issue positions carried in inventory twenty *business days* after new issue settlement date. All security positions that qualify for a margin offset may be eliminated.

### Notes and instructions (Continued)

(ii) The amount reported must include uncovered stock positions in market-maker accounts.

### Amount loaned

- (7) The client and <u>Investment</u> Dealer Member's own positions reported are to be determined based on the combined client/<u>Investment</u> Dealer Member's own long or short position that results in the largest amount loaned exposure.
  - (i) To calculate the combined amount loaned on the long position exposure, combine:
    - the loan value of the gross long client position (if any) contained within client margin accounts,
    - the weighted market value (calculated pursuant to the weighted market value calculation set out in Schedule 4, note 8(i)(a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, note 8(i)(b)) of the gross long client position (if any) contained within client cash accounts,
    - the *market value* (calculated pursuant to the *market value* calculation set out in Schedule 4, note 8(ii)(a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, note 8(ii)(b)) of the gross long client position (if any) contained within client delivery against payment accounts, and
    - the loan value (calculated pursuant to the notes and instructions to Schedule 2) of the net long <u>Investment</u> Dealer Member's own position (if any).
  - (ii) To calculate the combined amount loaned on the short position exposure reported on Schedule 911A, combine
    - the *market value* of the gross short client position (if any) contained within client margin, cash and receipt against payment accounts, and
    - the market value of the net short <u>Investment</u> Dealer Member's own position (if any).

Calculate the combined amount loaned on the short position exposure reported on Schedule <u>911</u>B according to the same methodology described in note 7(i).

- (iii) If the loan value of an issuer position or a precious metal position (net of issuer securities or precious metal position required to be in segregation/safekeeping) does not exceed one-half (one-third in the case of an issuer position or precious metal position which qualifies under either note 8(i) or 8(ii) below) of the sum of the <u>Investment\_Dealer</u> Member's risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line <u>78</u>) as most recently calculated, the completion of the columns titled "Adjustments in arriving at Amount Loaned" (on Schedules <u>911</u>A and <u>911</u>B), "Risk-weighting adjustment factor %" (Schedule <u>911</u>B), and "Risk-weighted amount loaned" (Schedule <u>911</u>B) is optional. However, nil should be reflected for the concentration charge.
- (iv) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:
  - (a) Security positions and precious metal positions that qualify for a margin offset may be excluded, as previously discussed in notes 5(i) and 6(i),
  - (b) Security positions and precious metal positions that represent excess margin in the client's account may be excluded. (If the starting point of the calculations is securities or precious metal positions not required to be in segregation/safekeeping, this deduction has already been included in the loan value calculation of Column 7 on Schedules 911A and 911B.),
  - (c) Security positions that are financed by limited recourse loans that meet the industry standard wording set out in the Limited Recourse Call Loan Agreement may be excluded,
  - (d) In the case of margin accounts, 25% of the *market value* of long positions in any: (I) non-marginable securities or, (II) securities with a margin rate of 100%, in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only,
  - (e) In the case of cash accounts, 25% of the *market value* of long positions in any securities whose *market value* weighting is 0.000 (pursuant to Schedule 4, note 8(i)(a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only,

### Notes and instructions (Continued)

- (f) The amount loaned values of trades made with financial institutions that are not acceptable institutions, acceptable counterparties or regulated entities, if the trades are outstanding less than 10 business days past settlement date, and the trades were confirmed on or before settlement date with a settlement agent that is an acceptable institution may be deducted from the amount loaned calculation, and
- (g) Any security positions or precious metal positions in the client's (the "Guarantor") account, which are used to reduce the margin required in another account pursuant to the terms of a *guarantee* agreement, shall be included in calculating the amount loaned on each security for the purposes of the Guarantor's account.
- (v) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

### **Concentration thresholds**

(8) The following concentration thresholds apply:

	ount loaned issuer sification	Issuer classification or special application criteria	Amount loaned concentration threshold		
(i)	Related or "non-arm's length" securities	<ul> <li>Securities issued by:</li> <li>(a) the <u>Investment</u> Dealer Member, or</li> <li>(b) a company meeting all of the following thresholds: <ul> <li><u>Investment</u> Dealer Member accounts are included in the consolidated financial statements</li> <li>the assets and revenue of the <u>Investment</u> Dealer Member constitute more than 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the <u>Investment</u> Dealer Member</li> </ul> </li> </ul>	One-third of the sum of the <u>Investment</u> Dealer Member's risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 78), as most recently calculated.		
(ii)	Non-marginable securities of an issuer held in a cash account(s)	Non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted <i>market</i> <i>value</i> calculation set out in Schedule 4, note 8(i)(a) <u>(11)</u> .			
(iii)	Non-related or arm's length marginable securities	Securities, or a precious metal position, other than those described in notes 8(i) and 8(ii) above.	Two-thirds of the sum of the <u>Investment</u> Dealer Member's risk adjusted capital before securities concentration charge and minimum capital (Statement B, Line 7 <u>8</u> ), as most recently calculated.		
(iv)	Additional exposures	<ul> <li>The following scenarios result in a reduced concentration threshold for any other issuer or precious metal position:</li> <li>(a) Multiple violations: If the <u>Investment</u> Dealer Member has already incurred a concentration charge for an issuer position_or precious metal position under notes 8(i), 8(ii), or 8(iii); or,</li> <li>(b) <u>Material exposures</u>: If the <u>Investment</u> Dealer Member has already measured a concentration exposure on any one non-related issuer or a precious metal position</li> </ul>	One-half of the sum of theInvestment_Dealer Member's riskadjusted capital before securitiesconcentration charge andminimum capital (Statement B,Line 78), as most recently calculated.Any additional exposures forissuer positions classified under8(i) or 8(ii) are measured at one-third of the sum of theInvestmentDealer Member's risk adjusted		

### Notes and instructions (Continued)

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold		
	in excess of one-half of the sum of <i>risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 78), as most recently calculated.	<i>capital</i> before securities concentration_charge and minimum capital (Statement B, Line <u>78</u> ), as most recently calculated.		

(9) The additional exposures threshold reductions detailed in note 8(iv) apply to all issuer positions tested under Schedule 9<u>11</u>, including positions from the same issuer whose concentration exposures are calculated separately under Schedules 9<u>11</u>A and 911B.

### **Concentration charge**

- (10) An amount equal to 150% of the excess of the final adjusted amount loaned over the concentration thresholds indicated in note 8 is required unless the excess is cleared within five *business days* of the date it first occurs.
- (11) For the purpose of calculating the concentration charges as required by notes 8(i), 8(ii), 8(iii), 8(iv), and 10 above, such calculations must be performed for the largest three issuer positions and precious metal positions originating from Schedule 911A and the largest three issuer positions originating from Schedule 911B, ranked by Final adjusted amount loaned in which there is a concentration exposure. Concentration exposures in issuer positions exceeding the thresholds described in notes 8(i) and 8(ii) are ranked first on Schedule 911.
- (12) For Schedule <u>911</u>A positions, the concentration charge relating to long positions is limited to the loan value of the issuer security(ies) or precious metal position for which the charge is incurred. For Schedule <u>911</u>B positions, the concentration charge is limited to the risk-weighted loan value of the issuer security(ies) as calculated for long positions, which is also applicable for short positions.

### Other

- (13) (i) Where there is an over exposure in a security or a precious metal position and the concentration charge as referred to above would produce either a capital deficiency or an early warning violation, the <u>Investment</u> Dealer Member must report the over exposure situation to the Corporation on the date the over exposure first occurs.
  - (ii) A measure of discretion is left with the *Corporation* in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in "readily saleable quantities".

## Form 1, Part II – Schedule <u>911</u>A

Investment Dealer Member's name

		_									
					Date						
			Conc	entration of s	securities <u>– Inves</u>	tment Deale	r Members				
					General Security						
	[excluding securiti	es required to be in s	egregatio	n or safekeeping	& debt securities wit	h a margin rate	of 10% or less (see	e Sch. <u>911</u> , note	3 and Sch. <u>911</u>	A, note 3)]	
		2		_		_			10		10
1	2	3	4	5	6	7	8	9	10	11	12
	Client position	Dealer				Loan value	Adjustments	"Amount	Amount	Final	General Security Test - exposure greater than 1/2 RAC, or 1/3 RAC
	long/(short)	Member's own				of securities	in arriving at	loaned"	within five	adjusted	(Yes/ or No)
Description of Security	C\$000's	long/(short)		Market		C\$000's	amount	C\$000's	business	amount	[Sch. <u>911</u> ,
[Sch. <u>911</u> A, note 2]	[Sch. <u>911</u> , note 5]	C\$000's [Sch. <u>911</u> , note 6]	Unit Price	value C\$000's	Effective margin rate	[Sch. <del>9<u>11</u>,</del> note 2]	loaned C\$000's	[Sch. <del>9<u>11</u>, note 7]</del>	days C\$000's	loaned C\$000's	notes 1 and 8]

## Form 1, Part II – Schedule <u>911</u>A Notes and instructions

### **General Security Test**

- (1) <u>Investment</u> Dealer Members must disclose the largest ten issuer positions and precious metal positions subject to the General Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed.
- (2) An issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt, structured products or other securities of an issuer other than *debt securities* cited in note 3). Precious metal positions are also tested using the General Security Test methodology, and must include all certificates and bullion of the particular precious metal (gold, platinum or silver).
- (3) Exclude all:
  - (i) debt securities with a normal margin requirement of 10% or less, and
  - (ii) stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments.
- (4) An amount loaned exposure to broad based index<u>diversified investment product</u> positions may be treated as an amount loaned exposure to each of the individual securities comprising the index basket. These amount loaned exposures may be reported by breaking down the broad based index<u>diversified investment product</u> position into its <u>underlying</u> constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each index constituent security position held, sum:

- (i) the individual security positions held, and
- (ii) the constituent security position held.

(For example, if ABC security has a 7.3% weighting in a *broad based index<u>diversified investment product</u>, the number of securities that represents 7.3% of the value of the <i>broad based index<u>diversified investment product</u>* position shall be reported as the constituent security position.)

Investment Dealer Member's name

Date

## Concentration of securities - Investment Dealer Members

Debt Security Test

[excluding securities required to be in segregation or safekeeping & positions reported on Schedule 911A (see Sch. 911, note 3)]

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Description of security [Sch. 9 <u>11</u> B, note 2]	Client position long/(short) C\$000's [Sch. 9 <u>11</u> , note 5]	Dealer Member's own long/(short) C\$000's [Sch. 9 <u>11</u> , note 6]	Unit Price	Market value C\$000's	Effective margin rate	Loan value of securities C\$000's [Sch. <u>911</u> , note 2]	Adjustments in arriving at amount loaned C\$000's	"Amount loaned" C\$000's [Sch. <u>911</u> , note 7]	Risk- weighting adjustment factor % [Sch. <u>911</u> B, notes 5, 6 and 7]	Risk-weighted "amount loaned"(Column 9 x Column 10) C\$000's [Sch. <u>911</u> B, notes 5, 6 and 7]	Amount cleared within five business days C\$000's	Final adjusted amount loaned C\$000's	Debt Security Test – exposure greater than 1/2 RAC, or 1/3 RAC (Yes or No) [Sch. <u>911</u> , notes 1 and 8]

## Form 1, Part II – Schedule <u>911</u>B Notes and instructions

### **Debt Security Test**

- <u>Investment</u> Dealer Members must disclose the largest ten issuer positions subject to the Debt Security Test, whether or not a concentration charge applies. If there are more than ten issuer positions where a concentration exposure exists, then all such positions must be listed.
- (2) The Debt Security Test methodology applies to *debt securities* with a normal margin requirement of 10% or less, whose concentration exposures are calculated separately from the other securities of an issuer included for testing under the General Security Test. An issuer position must include all debt issuance classes or series of securities for an issuer (i.e. all long and short positions in *debt securities* with a normal margin requirement of 10% or less, other than *debt securities* cited in note 3).
- (3) Exclude non-commercial *debt securities* with a normal margin requirement of 10% or less and debt obligations and evidences of indebtedness with an original maturity of 1 year or less, as categorized below, that meet the following minimum *designated rating organization* current credit rating requirements and qualifications:

Exclus	sions from Schedule 9 <u>11</u> B		
Categ	lory	Minimum designated rating organization current credit rating	Qualification(s)
1.	<ul> <li>Non-commercial debt securities with a normal margin rate of less than 10%, issued or guaranteed by the following: <ul> <li>national governments of Canada, United Kingdom, and United States</li> <li>Canadian provincial governments</li> <li>the International Bank for Reconstruction and Development</li> <li>Canadian and United Kingdom municipal corporations</li> </ul> </li> </ul>	Not applicable	Not applicable (N/A)
2.	Other non-commercial <i>debt securities</i> with a normal margin rate of 10% or less	А	
3.	<ul> <li>Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following: <ul> <li>A Canadian financial institution qualifying as an acceptable institution</li> <li>A foreign financial institution qualifying as an acceptable institution</li> </ul> </li> </ul>	R-1(low), F1, P-1, A- 1(low)	Structured finance products as defined in National Instrument 25- 101 are not eligible for exclusion

### Additional netting allowance for Dealer Member's own position and client position

- (4) Security positions that qualify for a margin offset may be excluded, as detailed in Schedule 9<u>11</u>, notes 5(i) and 6(i). The remaining net long (short) <u>Investment</u> Dealer Member's own inventory position may be calculated on a net basis. Individual client account positions are also eligible for this netting allowance. The offsetting of positions is allowed if:
  - (i) the positions are of the same seniority, or
  - (ii) the short position is junior in the statutory creditor hierarchy, or contractually subordinated, to the long position.

It is not permitted to net the <u>Investment</u> Dealer Member's own position against client positions, or to net exposures across client accounts. Netting across client accounts is only permitted in accordance with section 5830 of the <del>Corporation</del> <del>Investment</del> Dealer and <del>Partially</del> Consolidated Rules, supported by a written hedge agreement in a form acceptable to the *Corporation*.

## Form 1, Part II – Schedule <u>911</u>B Notes and instructions (Continued)

### Additional amount loaned adjustments available for the Debt Security Test

(5) The amount loaned may be reduced by applying a risk-weighting adjustment factor if the *debt security(ies)* meets the minimum current credit requirement from at least one *designated rating organization* as indicated in the following table:

Risk	-weighting adjustments for debt securitie	r less	
	Minimum designated rating organization rating	Adjustment factor	Multiple designated rating organization current credit ratings
Lon	g term rating:	If only one current credit rating, that rating	
1.	ААА	40%	applies.
2.	AA to A	50%	applies.
3.	ВВВ	60%	If more than two current credit ratings, refer to
4.	Below BBB or not rated	80%	the highest two ratings and apply the lower
Sho	rt term rating:		rating.
5.	Above R-2, F3, P-3, A-3	40%	
6.	R-2, F3, P-3, A-3	60%	
7.	Below R-2, F3, P-3, A-3 or not rated	80%	

- (6) In order to qualify for a risk-weighting adjustment factor, the following additional eligibility standards apply:
  - (i) commercial *debt securities* must be ranked senior to any outstanding *equity securities* from the same issuer in the statutory creditor hierarchy, or contractually
  - (ii) structured finance products as defined in National Instrument 25-101 are risk-weighted at 80%.

### 2-step methodology for determining risk-weighting adjustment factor

(7) Step 1: Calculate the issuer's risk-weighted amount loaned using the highest determined adjustment factor (i.e. lowest applicable DRO rating or not rated in note 5) for all debt issue exposures held for that issuer. If the risk-weighted amount loaned calculated in Step 1 does not exceed any of the concentration thresholds detailed in Schedule 911, notes 8(i), 8(ii), 8(iii), 8(ii), there is no need to make any additional risk-weighting calculations.

Step 2: Option to use a weighted average adjustment factor to calculate the risk-weighted amount loaned:

- calculate the weights for each applicable adjustment factor within the aggregate amount loaned exposure (Schedule <u>911</u>B, Column 9) for the issuer.
- 2. multiply each adjustment factor by its weight in the aggregate amount loaned exposure.
- 3. add the weighted adjustment factors together to determine the weighted average adjustment factor.

			Dealer Membe	r's name			
			Date				
			Insuran	ce			
А.	Financ	ial Institution Bond (FIB) clauses (a) to	o (e)				
			Reference	C\$000's	_	<u>C\$000's</u>	
<del>1.</del>	Covera clause:	ge <u>Minimum coverage</u> required for <del>FIB</del>	each		_		
		nd Dealer Members categorized as Le	<u>vel 1, 2 or 3 Dealers</u>	and Investm	ent Dealer Mer	mbers who are <sup>.</sup>	<u> Type 1</u>
<u>1.</u>	<u>(a)</u>	<u>g brokers</u> Minimum coverage of				<u>\$200</u>	
<u></u>		Client net equity:			<u>x 0.5%</u>	<u>\$200</u>	[see note 3]
	(u) <u>407</u>	i) Dealer Member's own	-		_		<u>-</u>
		ii) Carrying brokers' introducing brokers	-				
		Total	-		 <del>x 1%*</del>		[see note 4]
	<del>(b)</del>	Total liquid assets	<del>A-12</del>				
	( <u>c)</u>	Total <del>other</del> allowable assets	A- <del>18</del> 20		<u>× 0.5%</u>		
		Total	-		<del>× 1%*</del>		
Inc.	<u>Greate</u>	d on one half of one percent for Types er of (a), (b) and (c) above to maximu	<u>ım of \$25,000,000</u>				_
_		t Dealer Members who are Type 2 int	oducing brokers			¢ E O O	
<u>2.</u>	<u>(a)</u> (b)	<u>Minimum coverage of</u> <u>Client net equity</u>			<u>x 0.5%</u>	<u>\$500</u>	[see note 3]
	<u>(c)</u>	Total allowable assets	<u>A-20</u>		<u>x 0.5%</u>		
		er of (a), (b) and (c) above to a maxir	num of \$25.000.000	)			
All		ealer Members		-			-
<u>3.</u>	<u>(a)</u> (b)	Minimum coverage of Client net equity:				<u>\$500</u>	
		i) Dealer Member's own	-				
		ii) Carrying brokers' introducing brokers	<u> </u>				
		<u>Total</u>	- -		<u>× 1%</u>		[see note 3]
	<u>(c)</u>	Total allowable assets	<u>A-20</u>		<u>x 1%</u>		
	<u>Greate</u>	<u>er of (a), (b) and (c) above to a maxir</u>	<u>num of \$25,000,000</u>	<u>)</u>			=
<del>2.</del> 4	<u>.</u> Cov	erage maintained per FIB					[see notes <del>5<u>4</u> and 9<u>8</u>]</del>
<del>3.</del> 5	<u>.</u> Exce	ess/(deficiency) in coverage					[see note <u>65</u> ]
<u>4.</u> 6	. Amo	ount deductible under FIB (if any)					[see note <del>7<u>6</u>]</del>
						<del>B-16</del> B-17	

## B. Registered mail insurance

1.	Coverage per mail policy	[see note <del>8</del> 7]
c.	FIB and registered mail policy information [see note 98]	

Insurance company	 FIB/registered mail	Expiry date	Coverage	Type of aggregate limit	Provision for full reinstatement	Premium

## D. Losses and claims [see note 10]

Date of loss	Date of discovery	Amount of loss	Deductible applying to loss	Description	Claim made?	Settlement	Date settled

## 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 1012 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.

(43) Net equity for each client is the <u>net value of cash, securities, precious metals bullion and other investment products held or controlled by the Dealer Member on behalf of clients. The net value is determined as the total value of cash, securities, precious metals bullion and other acceptable property investment products owed to the client by the Dealer Member less the total value of cash, securities, precious metals bullion and other acceptable property investment products owed to the client by the Dealer Member less the total value of cash, securities, precious metals bullion and other acceptable property investment products 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.</u>

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 The aggregate net equity for each client is reported on Schedule 12 Part A, Lines 1(b), 2(b) and 3(b) depending on the Dealer Member type or level. 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. Cash and securities held by a Dealer Member in its capacity as agent for the trustee must be included in the determination of total client net equity held by the Dealer Member.

For a Dealer Level 1 and 2, the client net equity reported on Line 1(b) should be zero since these Dealer Members do not hold client assets. For a Dealer Level 3, the client net equity reported on Line 1(b) should only include client cash in trust held by the Dealer Member since the Dealer Member does not hold client securities or other investment products.

For introducing broker/carrying broker arrangements, both the introducing broker and the carrying broker must include the accounts introduced/carried when calculating the client net equity.

For Schedule 1012, guarantee/guarantor agreements should not be considered in the calculation of net equity.

In CIRO Bulletin 24-0067, we propose to amend the above sentence as follows in IDPC Form 1, which once approved, we will incorporate into DC Form 1:

- For Schedule <u>1012</u>, 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<u>4</u>) 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.

- (65) 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<u>6</u>) 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.
- (7) 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 12, Part A Line 4).
- (8) <u>Part B -</u> 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.

## Form 1, Part II – Schedule <u>1012</u> Notes and instructions (Continued)

- (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) <u>Part C -</u> 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.
- (<u>1110</u>) <u>Part D</u> 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 <u>1012</u> 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.

Dealer Member's name

Date

## Unhedged foreign currencies calculation

Su	mmary	C\$000's
Α.	Total foreign exchange margin requirement	
		<del>B-17<u>B-18</u></del>
в.	Details for individual currencies with margin requirement greater than or equal to \$5,000:	
	Foreign currency with margin requirement $\geq$ \$5,000	
	(For each foreign currency, a Schedule <u>1113</u> A <u>or 13B</u> must be completed) Mar	gin group Required margin
	Subtotal	
	Subtotal	
	All other foreign exchange margin requirement	
	Total	

Mutual Fund Dealer Member's name

	Date	
Ī	Details of unhedged foreign currencies calculation for individual currencies with margin required o equal to \$5,000 (Mutual Fund Dealer Members with no foreign exchange contract positi	
<u>Fo</u>	preign currency:	
<u>Fo</u>	preign currency group:	
	Amount	Margin required
Bo	alance sheet items less than or equal to two days to maturity	
<u>1.</u>	Total monetary assets	
<u>2.</u>	Total monetary liabilities	
<u>3.</u>	Net long (short) foreign exchange positions	
<u>4.</u>	Net foreign exchange position multiplied by spot risk for Group of%	
<u>5.</u>	Spot rate at reporting date	
<u>6.</u>	Margin requirement converted to Canadian dollars	

### Foreign exchange concentration charge

<u>7.</u> <u>Total foreign exchange margin [Line 6] in excess of 25% of net allowable assets less</u> <u>minimum capital [not applicable to Group 1]</u>

Total foreign exchange margin for (currency):

<u>Sch. 13</u>

## Form 1, Part II – Schedule 11A13B

	Dealer Member's nam	e		
	Date			
C	Details of unhedged foreign currencies calculation for individual c equal to \$5,000 <u>— Investment De</u>		margin required g	greater than or
For	eign currency:			
For	eign currency group:			
		Amount	Weighted value	Margin required
	ance sheet items and forward/future commitments less than or equal to o years to maturity	þ		
1.	Total monetary assets			
2.	Total long forward/futures contract positions			
3.	Total monetary liabilities			
4.	Total (short) forward/futures contract positions			
5.	Net long (short) foreign exchange positions			
6.	- Net weighted value		•	
7.	Net weighted value multiplied by term risk for Group of%			
	ance sheet items and forward/future commitments greater than o years to maturity			
8.	Total monetary assets			
9.	Total long forward/futures contract positions			
10.	Total monetary liabilities			
11.	Total (short) forward/futures contract positions			
12.	Net long (short) foreign exchange positions			
13.	Greater of long or (short) weighted values			
14.	Net weighted value multiplied by term risk for Group of%			
For	eign exchange margin requirements			
15.	Net long (short) foreign exchange positions			
16.	Net foreign exchange position multiplied by spot risk for Group of _	%		
17.	Total term risk and spot risk margin requirement			
18.	Spot rate at reporting date			
19.	Margin requirement converted to Canadian dollars			
For	eign exchange concentration charge			
20.	Total foreign exchange margin [Line 19] in excess of 25% of net allov less minimum capital [not applicable to Group 1]	vable assets		
Tot	al foreign exchange margin for (currency):			
				Sch. <u><del>11</del>13</u>

# Form 1, Part II – Schedules <u>1113, 13A</u> and <u>11A13B</u>

## Notes and instructions

### (1)—

(1) The purpose of this schedule is to measure the balance sheet exposure a *Dealer Member* has to foreign currency risk. Schedule <u>1113A or Schedule 13B</u> must be completed for each foreign currency that has margin requirement greater than or equal to \$5,000.

<u>Schedule 13A details the foreign currency margin calculation for a Mutual Fund Dealer Member's foreign currency exposure.</u> <u>Schedule 13B details the foreign currency margin calculation for an Investment Dealer Member's foreign currency exposure.</u>

- (2) The following is a summary of the quantitative and qualitative criteria for currency groups 1-4. *Dealer Members* should refer to the *Corporation*'s most recently published listing of currency groupings.
  - (i) A Group 1 currency must (a) have a spot price volatility level of less than or equal to 1%, and (b) be a primary intervention currency of the Canadian dollar.
  - (ii) A Group 2 currency must (a) have a spot price volatility level of less than or equal to 3%, (b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and (c) have either: (I) a daily quoted spot rate by either: (A) a member of the Economic and Monetary Union, or (B) a participant of the Exchange Rate Mechanism II, or (II) a listed currency *futures contract* on a futures exchange.
  - (iii) A Group 3 currency must (a) have a spot price volatility of less than or equal to 10%, (b) have a daily quoted sport rate by a Schedule 1 *chartered bank*, and (c) be of a member country of the International Monetary Fund.
  - (iv) A Group 4 currency has no initial or ongoing qualification criteria.
- (3) Reference should be made to the applicable Corporation requirements for definitions and calculations.
- (4) *Monetary assets* and *monetary liabilities* are assets and liabilities, respectively, of a *Dealer Member* in respect of money and claims to money whether denominated in foreign or domestic currency, which are fixed by contract or otherwise.
- (5) All *monetary assets* and *monetary liabilities* as well as the *Dealer Member's* own foreign currency future and forward commitments are to be reported on a trade date basis.
- (6) *Monetary<u>assets and monetary</u> liabilities and the Dealer Member's own foreign currency future and forward commitments should be disclosed by maturity dates (i.e. less than or equal to two years and greater than two years).*
- (7) Weighted value is calculated for foreign exchange positions with a term to maturity of over two business days. The weighted value is derived by taking the term to maturity of the foreign exchange position in calendar days divided by 365 (weighting factor) and multiplying it by the unhedged foreign exchange amount.
- (8) The total margin requirement is the aggregate of the spot risk margin requirement and term risk margin requirement. The spot risk margin requirement applies to all *monetary assets* and *monetary liabilities*, regardless of *term to maturity*. The term risk margin requirement applies to all *monetary assets* and *monetary liabilities* with a *term to maturity* of over two *business days*. The following summarizes the margin rates by currency group:

	Currency group				
	1	2	3	4	
Spot risk margin rate	greater of: (i) 1.00% and (ii) spot risk surcharge rate <sup>1</sup>	greater of: (i) 3.00% and (ii) spot risk surcharge rate <sup>1</sup>	greater of: (i) 10.00% and (ii) spot risk surcharge rate <sup>1</sup>	25.00%	
Term risk margin rate <sup>2</sup>	1.00% to a maximum of 4.00%	3.00% to a maximum of 7.00%	5.00% to a maximum of 10.00%	12.50% to a maximum of 25.00%	
Total maximum margin rates <sup>1</sup>	5.00%	10.00%	20.00%	50.00%	

<sup>1</sup> The spot risk surcharge rate is determined using the approach set out in subsection 5462(2).

## Form 1, Part II – Schedules <u>1113, 13A</u> and <u>11A13B</u>

### Notes and instructions (Continued)

- <sup>2</sup> If the weighting factor described in note 7 above exceeds the maximum term risk margin rate in the above table, the weighting factor should be adjusted to the maximum.
- (9) Dealer Members may elect to exclude non-allowable monetary assets from the total monetary assets reported on Schedule <u>1113</u>A<u>or Schedule 13B</u> for purposes of the foreign exchange margin calculation. The reason underlying this proviso is that a Dealer Member should not have to provide foreign exchange margin on a non-allowable asset which is already fully provided for in the determination of the capital position of the Dealer Member unless it serves as an economic hedge against a monetary liability.
- (10) For Dealer Members offsetting a foreign exchange position denominated in a currency which has a currency futures contract which trades on a futures exchange, an alternative margin calculation may be used (refer to section 5467 of the Corporation Investment Dealer and Partially Consolidated Rules). Any contract positions for which the margin is calculated under the alternative method must be reported as part of the inventory margin calculations on Schedule 2 and should be excluded from Schedule 11A13B.
- (11) <u>Schedule 13A Line 7 and Schedule 13B Line 20</u> The foreign exchange concentration charge applies only to currency groups 2 to 4.

Dealer Member's name

Date

### Provider of capital concentration charge

Name of provider of capital Reference C\$000's Calculation of cash and undersecured loans with provider of capital Α. 1. Cash on deposit with provider of capital 2. Cash, held in trust with provider of capital, due to free credit ratio calculation Loans receivable - undersecured loans receivable from provider of 3. capital relative to normal commercial terms 4. Loans receivable - secured loans receivable from provider of capital that are secured by investments in securities issued by the provider of capital Securities borrowed - securities borrowing agreements with the provider 5. of capital that are undersecured relative to normal commercial terms 6. Securities borrowed - secured securities borrowing agreements with the provider of capital that are secured by investments in securities issued by the provider of capital 7. Resale agreements - agreements with the provider of capital that are undersecured relative to normal commercial terms 8. Commissions and fees receivable from the provider of capital Interest and dividends receivable from the provider of capital 9. 10. Other receivables from the provider of capital 11. Loans payable - loans payable to the provider of capital that are overcollateralized relative to normal commercial terms Securities lent - agreements with the provider of capital that are 12. overcollateralized relative to normal commercial terms 13. Repurchase agreements - agreements with the provider of capital that are overcollateralized relative to normal commercial terms Less: 14. Bank overdrafts with the provider of capital 15. Total cash deposits and undersecured loans with provider of capital Calculation of investments in securities issued by the provider of capital B. Investments in securities issued by the provider of capital (net of margin 1. provided) Less: Loans payable to provider of capital that are linked to the assets above 2. and are limited recourse Securities issued by the provider of capital sold short provided they are 3. used as part of a valid offset with the investments reported in Section B, Line 1 above 4. Total investment in securities issued by the provider of capital

~	<b>C</b>				
C.		lculation of financial statement capital provided by the provider of pital			
	1.	Regulatory financial statement capital provided by the provider of capital (including pro-rata share of reserves and retained earnings)			
D.	Ne	t allowable assets			
	1.	Net allowable assets			
Е.	Exp	oosure test #1 - Dollar cap on cash deposits and undersecured loans			
	1.	Regulatory financial statement capital provided by the provider of capital	Section C, Line 1		
	2.	Cash deposits and undersecured loans with provider of capital	Section A, Line 15		
	3.	Regulatory financial statement capital redeposited or lent back on an undersecured basis [Minimum of Section E, Line 1 and Section E, Line 2]			
	4.	Exposure threshold			\$50,000
	5.	Capital requirement [Excess of Section E, Line 3 over Section E, Line 4]			
F.	-	oosure test #2 - Overall cap on cash deposits and undersecured loans d investments			
	1.	Regulatory financial statement capital provided by the provider of capital	Section C, Line 1		
	2.	Cash deposits and undersecured loans with provider of capital	Section A, Line 15		
	3.	Investments in securities issued by the provider of capital	Section B, Line 4		
	4.	Total cash deposits and undersecured loans and investments [Section F, Line 2 plus Section F, Line 3]			
	5.	<i>Regulatory financial statement capital</i> redeposited or lent back on an undersecured basis or invested in securities issued by the <i>provider of capital</i> [Minimum of Section F, Line 1 and Section F, Line 4]			
	Les	ss:			
	6.	Capital charge incurred under Exposure Test #1	Section E, Line 5		
	7.	Net financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the <i>provider of capital</i> [Section F, Line 5 minus Section F, Line 6]			
	8.	Exposure threshold being the greater of:			
		(a) Ten million dollars		\$10,000	
		(b) 20% of net allowable assets [20% of Section D, Line 1]			
	9.	Capital requirement [Excess of Section F, Line 7 over Section F, Line 8]			
	10.	Total provider of capital concentration charge [Section E, Line 5 plus			
		Section F, Line 9]			B-19
					0-19

## Form 1, Part II – Schedule 14 Notes and instructions

- (1) The purpose of this schedule is to measure the exposure a *Dealer Member* has to each of its *providers of capital* (as defined below). As such is the case, a separate copy of this schedule should be completed for each *provider of capital* where the capital provided is in excess of \$10 million. This schedule should be completed on a settlement date basis.
- (2) The following terms have the meanings set out when used in this schedule:

"provider of capital"	An <i>individual</i> or entity and its affiliates that provides capital to a <i>Dealer Member</i> .
"Regulatory financial statement capital provided by the provider of capital"	The portion of the regulatory financial statement capital (calculated on Line 4 of Statement B) that has been provided to the <i>Dealer Member</i> by the <i>provider</i> of capital.

(3) Calculation of cash and undersecured loans with provider of capital

	+	

- (i) Section A, Line 2 The cash held in trust to be reported on this line includes cash held at the provider of capital that is segregated due to the free credit ratio calculation or segregated by Mutual Fund Dealer Members due to the <u>Corporation's requirements</u>. Cash deposited in trust for RRSP and other similar accounts is excluded.
- (<u>ii</u>) Section A, Line 3 The undersecured amount to be reported on this line refers to any deficiency between the *market* value of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the collateral received) deficiency required under normal commercial terms.
- (iiiii) Section A, Line 4 The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the *provider of capital*.
- (iii<u>iv</u>) Section A, Line 5 The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable or the *market value* of the securities delivered as collateral that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the collateral received) deficiency required under normal commercial terms.
- (ivy) Section A, Line 6 The amount to be reported on this line refers to the entire loan receivable balance or the *market* value of the securities delivered as collateral if the only collateral received for the loan is securities issued by the provider of capital.
- (v<u>vi</u>) Section A, Line 7 The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage (the percentage is determined by dividing the deficiency by the *market value* of the security received) deficiency required under normal commercial terms. If the security received is a security issued by the *provider of capital* the collateral is assumed to have no value for the purposes of the above calculation.
- (vi<u>vii</u>) Section A, Lines 8, 9 and 10 The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the *provider of capital*.
- (vii<u>viii</u>) Section A, Line 11 The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.
- (viiiix) Section A, Line 12 The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the *market value* of the securities received as collateral that is greater than the percentage (the percentage is determined by dividing the deficiency by the amount of the loan payable) deficiency required under normal commercial terms.

# Form 1, Part II – Schedule 14 Notes and instructions (Continued)

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

### (4) Calculation of investments in securities issued by the provider of capital

- (i) Section B, Line 1 Include all investments in securities issued by the provider of capital.
- (ii) Section B, Line 2 Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.
- (iii) Section B, Line 3 Include only those security positions that are otherwise eligible for offset pursuant to the *Corporation*'s capital requirements.

### (5) Calculation of financial statement capital provided by the provider of capital

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

Dealer Member's name

Date

## Margin on futures concentrations and deposits

		Margin required
		C\$000's
1.	Total open futures contract and short futures contract option positions	
2.	Concentration in individual accounts	
3.	Concentration in individual open futures contracts and short futures contract options	
4.	Deposits with correspondent brokers	
5.	Total [Sum of Lines 1 through 4]	
		<del>B-18<u>B-20</u></del>

## Form 1, Part II – Schedule <u>1215</u> Notes and instructions

- (1) The purpose of Schedule <u>1215</u> is to ensure that there is adequate capital available at a *Dealer Member* to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with *correspondent brokers*.
- (2) The following terms have the meanings set out when used in this schedule:

"correspondent broker"	A broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the <i>Dealer Member</i> in a country other than Canada.
"maintenance margin requirement"	The margin requirement prescribed by the futures exchange on which the futures contract is entered into.
"long futures contract position"	Includes futures contracts underlying short put options on futures contracts.
"short futures contract position"	Includes futures contracts underlying short call options on futures contracts.

### (3) Line 1 - General margin provision (notes 3 and 4)

Line 1 is used to establish a base level of capital that a *Dealer Member* is to provide when the *maintenance margin requirements* (calculated and published by the futures exchange in which the futures contracts and futures contract options are entered) are not calculated on a daily basis. The base level of capital is dependent on the number and type of contracts currently held by the *Dealer Member* and its clients.

The general margin provision calculation is on the *Dealer Member* and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related note below.

The margin required is 15% of the greater of:

- (i) the maintenance margin requirements of the total long futures contract positions for each type of futures contract carried for all Dealer Member and client accounts, or
- (ii) the maintenance margin requirements of the total short futures contract positions for each type of futures contract carried for all Dealer Member and client accounts.

Where a futures exchange calculates and publishes *maintenance margin requirements* on a daily basis, no margin is required under Line 1.

### (4) Line 1 - Positions excluded in determining the general margin provision

The following positions may be excluded in determining the general margin provision:

- (i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.
- (ii) Hedge positions (as opposed to speculative positions) where the underlying interest is held in the client's account at the *Dealer Member* or that the *Dealer Member* has a document giving the *Dealer Member* an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions for the purpose of this calculation.
- (iii) Dealer Member or individual client spread positions in *futures contracts* in the same product (including *futures contracts* in the same product with different delivery months) entered into on the same futures exchange.
   All other spread positions are treated as speculative positions for the purpose of this calculation.
- (iv) Dealer Member or individual client short option positions on futures contracts which are out-of-the-money by more than two maintenance margin requirements.
- (v) Dealer Member or individual client spread positions in the same futures contract options.

### (5) Line 2 - Concentration in individual accounts (notes 5, 6, and 9)

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the *Dealer Member*) when the aggregate of the *maintenance margin requirements* for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the *Dealer Member's* inventory is greater than 15% of the *Dealer Member's* net allowable assets. The concentration risk is the excess amount of the aggregate of those *maintenance margin requirements* over 15% of the *Dealer Member's* net

### Notes and instructions (Continued)

allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related notes below) and how quickly the *Dealer Member* eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the relevant exchange.

The excess amount is:

- the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory, except for positions mentioned in note 9, minus
- (ii) 15% of the Dealer Member's net allowable assets.

### Deductions from part (i) of the excess amount calculation above

Any excess margin in the *Dealer Member* account or client's account may be deducted from part (i) of the excess amount calculation. The excess margin must be based on the maintenance margin.

### (6) Line 2 - Calculation of margin required for individual account concentrations

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

- (i) the excess amount calculated when the concentration first occurred, and
- (ii) the excess amount, if any, that exists on the close of the third trading day.

### (7) Line 3 - Concentration in individual open futures contracts and short options on futures contract positions (notes 7 to 9)

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two *maintenance margin requirements* on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the *Dealer Member's* inventory and for all clients, is greater than 40% of the *Dealer Member's* net allowable assets. The concentration risk is the excess amount of those aggregate of two *maintenance margin requirements* over 40% of the *Dealer Member's* net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related notes below) and how quickly the *Dealer Member* eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the relevant exchange.

The excess amount is:

- (i) the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, except for positions mentioned in note 9, minus
- (ii) 40% of the Dealer Member's net allowable assets.

### Deductions from part (i) of the excess amount calculation above

Any excess margin may be deducted from part (i) of the excess amount calculation, up to two *maintenance margin requirements* in the *Dealer Member* account or client's account (on a per client basis). The excess margin must be based on the maintenance margin.

### (8) Line 3 - Calculation of margin required for contract concentrations

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

- (i) the excess amount calculated when the concentration first occurred, and
- (ii) the excess amount, if any, that exists on the close of the third trading day.

### (9) Lines 2 and 3 - Positions to be excluded in calculating margin for account and contract concentrations in notes 6 and 8

- (i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.
- (ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at

### Notes and instructions (Continued)

the *Dealer Member* or that the *Dealer Member* has a document giving the *Dealer Member* an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions and are thereby not excluded.

- (iii) The following short option positions on futures contracts in a *Dealer Member* or client account, and provided that the pairings are acceptable for margin purposes by the relevant exchange:
  - (a) short calls or puts which are out-of-the-money by more than two maintenance margin requirements,
  - (b) a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month,
  - (c) a futures contract paired with an in-the-money option,
  - (d) a short call (put) paired with a long in-the-money call (put),
  - (e) a short call (put) paired with a long (short) futures contract,
  - (f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call, and
  - (g) an out-of-the-money short put paired with an out-of-the-money long put.

### (10) Line 4 - Margin on deposits with correspondent brokers

(i) Where a correspondent broker owes assets (including cash, open trade equity and securities) to a Dealer Member exceeding 50% of the Dealer Member's net allowable assets, the excess amount must be provided as a charge in computing the Dealer Member's margin required.

The assets owing to the *Dealer Member* are the amount of deposits before reducing this amount by the *maintenance margin requirements* for all open positions.

- Where the net worth of the *correspondent broker* (as determined from its latest published audited financial statements) is less than or equal to \$50,000,000, the *Dealer Member* must provide the amount calculated in note 10(i). If net worth exceeds \$50,000,000, then no margin is required.
- (iii) Where a *Dealer Member* who operates its futures contracts and futures contract options business on a fully disclosed basis with a *correspondent broker*, no exemption from this requirement is permitted.

Mutual Fund Dealer Member's name

Date

## Early warning tests - Mutual Fund Dealer Member (Level 1, 2 and 3 Dealers)

				<u>C\$000's</u>	
^	Lia	uidity test			
<u>A.</u>		arly warning excess [Statement C, Line 11] less than 0?			
				-	Yes/No
в.	Ca	<u>pital test</u>			
		isk adjusted capital [Statement B, Line 31] less than 0?			
				-	<u>Yes/No</u>
<u>C.</u>	Pro	fitability test #1			
				Profit or loss for 3	
				<u>months ending with</u> <u>current month</u>	
				<u>C\$000's</u>	
			<u>Months</u>	[see note 3]	
	<u>1.</u>	Current month			
	<u>2.</u>	Preceding month			
	<u>3.</u>	<u>3rd month</u>			
	<u>4.</u>	Total [see note 4]			
	<u>5.</u>	Risk adjusted capital [at Form 1 date]			
	Is l	oss on Line 4 greater than Line 5?			
					<u>Yes/No</u>
D.	Pro	fitability test #2			
				<u>Profit or loss for 6</u> months ending with	
				<u>current month</u>	
				<u>C\$000's</u>	
			<u>Months</u>	[see note 3]	
	<u>1.</u>	Current month			
	<u>2.</u>	Preceding month			
	<u>3.</u>	<u>3rd month</u>			
	<u>4.</u>	<u>4th month</u>			
	<u>5.</u>	<u>5th month</u>			
	<u>6.</u>	<u>6th month</u>			
	<u>7.</u>	Total [see note 5]			
	<u>8.</u>	<u>Risk adjusted capital [at Form 1 date]</u>			
	<u>Is  </u>	oss on Line 7 greater than Line 8?		-	)/aa/Na
	Enc	sucrey populity			<u>Yes/No</u>
<u>E.</u>		<mark>quency penalty</mark> <u>Has the Dealer Member triggered early warning at least 3 times in t</u>	he nast 12		
	<u>1.</u>	months?	ne pust 12	-	
					<u>Yes/No</u>

## Form 1, Part II – Schedule 16 Notes and instructions

- (1) The objective of the various early warning tests is to measure characteristics likely to identify a Level 1, 2 or 3 Dealer heading into financial trouble and to impose restrictions and sanctions to reduce further financial deterioration and prevent a subsequent capital deficiency. "Yes" answers indicate early warning has been triggered.
- (2) Level 1, 2 or 3 Dealers are subject to the early warning tests on Schedule 16.
- (3) The profit or loss figures to be used are before asset revaluation income and expense, interest on internal subordinated debt, bonuses, and income taxes (Statement D, Line 35 – Profit (loss) for early warning test). The "current month" figure must also reflect any audit adjustments made subsequent to the filing of the monthly financial report (MFR). These audit adjustments must be reported on the reconciliation schedule (Schedule 13M) within the Form 1 regulatory financial filing system.
- (4) Schedule 16, Section C Profitability test #1 If the total is a profit, no further calculation is required under this section. Enter a "No" answer.
- (5) Schedule 16, Section D Profitability test #2 If the total is a profit, no further calculation is required under this sections. Enter a "No" answer.

Dealer Member's name

Date

## Early warning tests – Level 1

(for Investment Dealer Members and Level 4 Dealers)

					C\$000's	
А.	Liqui	dity test		_		
		<i>rly warning reserve</i> [Statement C, Line <del>12<u>13</u>] less th</del>	an 0?			
						Yes/No
в.	Capit	tal test				
	1.	Risk adjusted capital [Statement B, Line <del>29<u>31</u>]</del>				
	2.	Total margin required [Statement B, Line 2426] m	ultiplied by 5%	—		
	ls Lir	ne 1 less than Line 2?				
						Yes/No
c.	Profit	tability test #1				
				Profit or loss for 6 months ending with current month		loss for 6 months with preceding month
				C\$000's		C\$000's
			Months	[see note <del>2</del> <u>4</u> ]	[s	ee note <mark>2<u>4</u>]</mark>
	1.	Current month				
	2.	Preceding month 3rd month				
	3.	4th month				
	4. 5	5th month				
	5. 6.	6th month				
	o. 7.	7th month				
	7. 8.	Total [see note <u>35</u> ]				
	9.	Average multiplied by -1				
	J. 10A.	Risk adjusted capital [at Form 1 date]				
	10A.	Risk adjusted capital [at preceding month end]			_	
	10D. 11A.	Line 10A divided by Line 9				
	11A.	Line 10B divided by Line 9			_	
۸		of the following conditions true:				
AIG	1.	Line 11A is greater than or equal to 3 but less t	han 6. and			
	2.	Line 11B less than 6?				
	2.					Yes/No
D.	Profit	tability test #2				
	1.	Loss for current month [see notes 2 and 4] multip	lied by -6			
	2.	Risk adjusted capital [at Form 1 date]		=		
				—		

Is Line 2 less than Line 1?

Yes/No

## Form 1, Part II – Schedule 1317A

Dealer Member's name

Date

## Early warning tests – Level 2

(for Investment Dealer Members and Level 4 Dealers)

			C\$000's	
А.	Lia	uidity test		•
		early warning excess [Statement C, Line <del>10<u>11</u>] less than 0?</del>		
				Yes/No
в.	Ca	pital test		
	1.	Risk adjusted capital [Statement B, Line <del>29<u>31</u>]</del>		
	2.	Total margin required [Statement B, Line 2426] multiplied by 2%		-
	ls L	ine 1 less than Line 2?		-
				Yes/No
c.	Pro	fitability test #1		
		Schedule <del>13<u>17</u>,</del> Section C, Line 11A less than 3 and		
	Scl	hedule <del>13<u>17</u>, Section C, Line 11B less than 6?</del>		Yes/No
П	Pro	fitability test #2		103,110
2.	1.	Loss for current month [see notes <u>24</u> and <u>46</u> ] multiplied by -3		
	2.	Risk adjusted capital [at Form 1 date]		
		ine 2 less than Line 1?		-
	15 L			Yes/No
Е.	Pro	fitability test #3		
			Profit or loss for 3	
			months ending with	I
			current month C\$000's	
		Months	[see note <del>2</del> 4]	
	1.	Current month		•
	1. 2.	Preceding month		-
	2. 3.	3rd month		-
	3. 4.	Total [see note 5 <u>7</u> ]		-
	 5.	Risk adjusted capital [at Form 1 date]		•
		oss on Line 4 greater than Line 5?		-
	15 10	uss on Line 4 greater than Line 5:		Yes/No
F.	Fre	quency penalty		
	1.	Has the <i>Dealer Member</i> triggered early warning at least 3 times in the past 6 months or is <i>risk adjusted capital</i> less than 0?		
	2.	Has the <i>Dealer Member</i> triggered liquidity or capital tests on Schedule <del>13<u>17</u>?</del>		Yes/No
	Yes/No		Yes/No	-
	3.	3. Has the <i>Dealer Member</i> triggered profitability tests on Schedule <u>1317</u> ? Yes/N		-
	4.	Are Lines 2 and 3 <u>both</u> yes?	103/140	
				Yes/No
		See notes and instructions		<del>Jan<u>xxx</u>-2023<u>xxxx</u></del>

## Form 1, Part II – Schedules <u>1317</u> and <u>1317</u>A Notes and instructions

- (1) The objective of the various early warning tests is to measure characteristics likely to identify a *Dealer Member* heading into financial trouble and to impose restrictions and *sanctions* to reduce further financial deterioration and prevent a subsequent capital deficiency. "Yes" answers indicate early warning has been triggered.
- (2) Investment Dealer Members and Level 4 Dealers are subject to the early warning tests on Schedule 17 and 17A.
- (3) If the <u>Investment</u> Dealer Member or Level 4 Dealer is currently capital deficient (i.e. *risk adjusted capital* is negative), only Line 1 of Part F in Schedule <u>1317</u>A must be completed. Schedule <u>1317</u>A do not need to be completed.
- (2<u>4</u>) The profit or loss figures to be used are before asset revaluation income and expense, interest on internal *subordinated debt*, bonuses, and income taxes (Statement <u>ED</u>, Line <u>3135</u> Profit (loss) for early warning test). The "current month" figure must also reflect any audit adjustments made subsequent to the filing of the *monthly financial report* (MFR). These audit adjustments must be reported on the reconciliation schedule (Schedule 13M) within the Form 1 webfilingregulatory financial filing system (SIRFF).
- (35) Schedule 17, Section C Profitability test #1, Schedule 17A, Section C Profitability test #1 If either or both of the calculated totals is a profit, no further calculation is required under Schedule 13, Section C Profitability test #1 and Schedule 13A, Section C Profitability test #1these sections.
- (4<u>6</u>) <u>Schedule 17, Section D Profitability test #2 and Schedule 17A, Section D Profitability test #2 If the amount is a profit, no further calculation is required under <del>Schedule 13, Section D Profitability test #2 and Schedule 13A, Section D Profitability test #2 and Schedule 13A, Section D Profitability test #2 these sections.</u></del>
- (5<u>7</u>) <u>Schedule 17A, Section E Profitability test #3 -</u> If the total is a profit, no further calculation is required under <del>Schedule 13A,</del> Section E - Profitability test #3<u>this section</u>.

Dealer Member's name

Date

#### Supplementary information (Figures not subject to audit) C\$000's Α. Segregation Aggregate market value of securities required to be recalled from call loans 1. No. Number of employees Β. 1. Number of employees - registered \_\_\_\_\_ Number of employees - other 2. Number of trades executed during the month c. Bonds 1. \_\_\_\_\_ 2. Money market 3. Equities – Listed Canadian \_\_\_\_\_ Equities – Foreign 4. Options 5. Futures contracts 6. \_\_\_\_\_ 7. Mutual funds 8. New issues \_\_\_\_\_ Other 9 \_\_\_\_\_ Total Number of Dealing Representatives – Mutual Fund Dealer Members only D. 1. Number of representatives registered only in Quebec ------<u>2.</u> Number of representatives registered outside Quebec Total

### Notes and instructions:

(1)

- (1) Mutual Fund Dealer Members and Investment Dealer Members offering margin and engaging in call loan activities must report the aggregate market value of securities required to be recalled from call loans to meet segregation requirements.
- (2) All Dealer Members must report the number of employees and number of trades under Part B and C. Only Mutual <u>Fund Dealer Members are required to report number of dealing representatives under Part D.</u>
- (3) Part C Trade tickets, not fills, for all markets must be counted.
- (4)
   Part D The Mutual Fund Dealer Member should report the number of Approved Persons who are engaged in selling

   activities. This would include licensed assistants, trading partners/directors/officers registered to the Mutual Fund

   Dealer Member and sales representatives who have direct dealings with clients.

Dealer Member's name

<u>Date</u>

## Assets under administration information

(Figures not subject to audit)

		<u>Current period</u> <u>C\$000's</u>
<u>A.</u>	Mutual Fund Dealer Members	
	Nominee name client positions	
	All products	
<u>1.</u>	Assets under Administration (excluding Quebec)	
<u>2.</u>	Assets under Administration (total including Quebec)	
	Investment (Mutual) Funds only	
<u>3.</u>	Assets under Administration (excluding Quebec)	
<u>4.</u>	Assets under Administration (total including Quebec)	
	<u>Client name positions</u>	
	All products	
F	Assets under Administration (excluding Quebec)	
<u>5.</u>		
<u>6.</u>	Assets under Administration (total including Quebec)	
	Investment (Mutual) Funds only	
<u>7.</u>	Assets under Administration (excluding Quebec)	
<u>8.</u>	Assets under Administration (total including Quebec)	
	<u>Cash</u>	
<u>9.</u>	Held for clients (excluding Quebec)	
<u>10.</u>	Held for clients (total including Quebec)	
_		
<u>B.</u>	Investment Dealer Members	
<u>1.</u>	Market value of client name positions and outside holdings not included in client net equity	

## Form 1, Part II – Schedule 19 Notes and instructions

- (1) This schedule must be completed and filed by the Dealer Member, where applicable, in the monthly financial report.
- (2) Part A Line 1 Assets under administration for this line is the total market value of all nominee name investment product positions held or controlled by the *Mutual Fund Dealer Member* for clients in all provinces of Canada, excluding Quebec.
- (3) Part A Line 2 Assets under administration for this line is the total market value of all nominee name investment product positions held or controlled by the Mutual Fund Dealer Member for clients in all provinces of Canada.
- (4) Part A Line 3 Assets under administration for this line is the total market value of all nominee name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) held or controlled by the <u>Mutual Fund Dealer Member for clients in all provinces of Canada, excluding Quebec.</u>
- (5) Part A Line 4 Assets under administration for this line is the total market value of all nominee name investment fund positions (mutual funds and non-redeemable investment funds as defined in *securities laws*) held or controlled by the <u>Mutual Fund Dealer Member for clients in all provinces of Canada.</u>
- (6) Part A Line 5 Assets under administration for this line is the total market value of all client name investment product positions for clients of the Mutual Fund Dealer Member, in all provinces of Canada, excluding Quebec.
- (7) Part A Line 6 Assets under administration for this line is the total market value of all client name investment product positions for clients of the Mutual Fund Dealer Member, in all provinces of Canada.
- (8) Part A Line 7 Assets under administration for this line is the total market value of all client name investment fund positions (mutual funds and non-redeemable investment funds as defined in securities laws) for clients of the Mutual Fund Dealer Member, in all provinces of Canada, excluding Quebec.
- (9) Part A Line 8 Assets under administration for this line is the total market value of all client name investment fund positions (mutual funds and non-redeemable investment funds as defined in securities laws) for clients of the Mutual Fund Dealer Member, in all provinces of Canada.
- (10) Part A Line 9 Mutual Fund Dealer Members must report on this line, the total cash held for clients in all provinces of Canada, excluding Quebec.
- (11) Part A Line 10 Mutual Fund Dealer Members must report on this line, the total cash held for clients in all provinces of Canada.
- (12) Part B Line 1 The client net equity reported on Schedule 12 includes client assets held or controlled by the Dealer Member on the client's behalf but does not include client assets held outside of the control of the Dealer Member such as bookbased client name assets. Investment Dealer Members must report on this line, total market value of all investment products reflected in the records they are required to maintain for outside holdings.
- (13) Assets of non-resident clients should also be included in the determination of assets under administration for this schedule as the Dealer Member is providing service to the clients, whether it be advice, periodic client statements, or other backoffice support.