



Now New Self-Regulatory Organization of Canada, a consolidation of IIROC and the MFDA

Rules Notice
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IDPC Rules

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23-0024
March 2, 2023

Housekeeping amendments to Investment Dealer and Partially Consolidated Rules regarding margin requirements for securities loan, repurchase agreements, and reverse repurchase agreements with term risk

Executive Summary

New SRO is amending its Investment Dealer and Partially Consolidated Rules (**IDPC Rules**) related to margin requirements for securities loan, repurchase agreements, and reverse repurchase agreements with term risk (the **Amendments**).

The objective of the Amendments is to correct an error in the plain language drafting of the term risk margin requirements on financing transactions in IDPC Rule 5900.

The Amendments will be effective immediately.

1. Summary of the Amendments

The Amendments:

- replace language referring to the ‘security involved in loan agreement’ with ‘Government of Canada debt security’, and
- clarify the margin rate rule reference.

1.1 Replace language

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We replaced the phrase ‘the security involved in the loan agreement’ with ‘Government of Canada debt security’ when describing the relevant margin rate applicable for calculating the term risk margin. This amendment corrects a drafting error in the plain language phrasing of section 5903.

The plain language drafting in the IIROC Rules (which have now been adopted as IDPC Rules) was intended to be a non-substantive change to the Dealer Member Rules to provide more clarity on the margin calculation. However, the drafting language incorrectly referenced the ‘security involved in the loan agreement’ which was a substantive change from the original Dealer Member Rules and may cause an unwarranted increase in the Dealer Member’s margin requirements.

1.2 Clarify margin rate rule reference

We replaced section 5210 with clause 5210(1)(i) as the reference for the applicable margin rates to be used in the term risk margin determination. Section 5210 includes margin rates for federal, provincial and municipal debt securities. Only the federal government debt rate in clause 5210(1)(i) is relevant when determining term risk margin.

Clean copies of the Amendments are set out in Appendix 1 and the blacklines of the changes are set out in Appendix 2.

2. Classification of the Amendments

We classified the Amendments as housekeeping amendments because:

- (i) the current language is an inadvertent error in drafting, and
- (ii) the change is necessary to correct the language and conform with the requirements of the original Dealer Member Rule which the IIROC Rule (now IDPC Rule) was intended to replace.

3. Implementation

On January 25th, 2023 the New SRO’s Board of Directors approved the Amendments. The Amendments are effective immediately.

4. Appendices

[Appendix 1](#) - Clean copy of IDPC Rule 5900

[Appendix 2](#) - Blackline comparison of IDPC Rule 5900

Housekeeping amendments to Investment Dealer and Partially Consolidated Rules regarding margin requirements for securities loan, repurchase agreements, and reverse repurchase agreements with term risk

Clean copy of IDPC Rule 5900

RULE 5900 | AGREEMENT RELATED MARGIN REQUIREMENTS

5901. Introduction

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

5902. Definitions

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

“fixed rate”	A rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until the termination of the relevant agreement.
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5903. Margin requirements for securities loan, repurchase agreements, and reverse repurchase agreements with term risk

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

Position	Special conditions	Margin required
Unhedged position		
Securities loan, <i>repurchase agreement</i> , or <i>reverse repurchase agreement</i>	<ul style="list-style-type: none"> ▪ the obligation to repurchase, resell or terminate the loan is outstanding for more than five <i>business days</i>, ▪ the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction, 	<p>The minimum <i>Dealer Member inventory margin</i> required for any unhedged term risk shall be determined by multiplying:</p> <p>(i) the relevant margin rate for a Government of Canada <i>debt security</i> with a term to maturity that is equal to the remaining term of the loan / agreement, as set out in section 5210(1)(i),</p> <p>by</p>

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Position	Special conditions	Margin required
Unhedged position		
	<ul style="list-style-type: none"> ▪ the amount of any compensation, price differential, fee, commission, or other financing charge to be paid in connection with the repurchase, resale, or loan is calculated according to a <i>fixed rate</i>, and ▪ the <i>Dealer Member</i> must perform the calculations daily and make full provision for any principal and return of capital then payable, and for all accrued interest, dividends, or other distributions on securities used as collateral. 	(ii) the loan / agreement market value.

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

Position	Special conditions	Margin required
Offsetting positions		
Securities loan versus <i>securities loan</i> or <i>Repurchase agreement</i> versus <i>reverse repurchase agreement</i>	<ul style="list-style-type: none"> ▪ the date of repurchase, resale, or termination of a loan is less than one year away for each of the offsetting positions, ▪ the offsetting positions are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions. 	The minimum <i>Dealer Member inventory margin</i> required for any residual offset term risk is the difference between the unhedged margin calculated for the two loan / agreement positions pursuant to subsection 5903(1)

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Position	Special conditions	Margin required
Offsetting positions		
Securities loan versus <i>securities loan</i> or <i>Repurchase agreement versus reverse repurchase agreement</i>	<ul style="list-style-type: none"> ▪ the date of repurchase, resale, or termination of a loan is greater than or equal to one year away for each of the offsetting positions, ▪ the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency, and ▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions. 	The minimum <i>Dealer Member inventory margin</i> required for any residual offset term risk shall be determined by multiplying: <ul style="list-style-type: none"> (i) the relevant margin rate for a Government of Canada <i>debt security</i> with a term to maturity that is equal to the remaining terms of the loans / agreements, as set out in section 5210(1)(i), by <ul style="list-style-type: none"> (ii) the net market value of the two loans / agreements.

5904. - 5999. Reserved.

6000. – 6999. Reserved.