

Form 1 – Table of contents

Dealer Member's name

Date

Updated

General notes and definitions		Sep-2022 Jan-2023
Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO)		Dec-2021 Jan-2023
Independent Auditor's Report for Statements A, E and F (at audit date only)		Dec-2021 Jan-2023
Independent Auditor's Report for Statements B, C and D (at audit date only)		Dec-2021 Jan-2023
Part I		
Statement A	Statement of financial position	Dec-2021 Jan-2023
Statement B	Statement of net allowable assets and risk adjusted capital	Dec-2021 Jan-2023
Statement C	Statement of early warning excess and early warning reserve	Dec-2021 Jan-2023
Statement D	Statement of free credit segregation amount	Sep-2022 Jan-2023
Statement E	Statement of income and comprehensive income	Dec-2021 Jan-2023
Statement F	Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships)	Dec-2021 Jan-2023
	Notes to the Form 1 financial statements	Dec-2021 Jan-2023
Part II ¹		
	Agreed-upon Procedures Report on compliance for insurance, segregation of securities, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year	Oct-2022 Jan-2023
Schedule 1	Analysis of loans receivable, securities borrowed and resale agreements	Dec-2021 Jan-2023
Schedule 2	Analysis of securities owned and sold short at market value	Sep-2022 Jan-2023
Schedule 2A	Margin for concentration in underwriting commitments	Dec-2021 Jan-2023
Schedule 2B	Underwriting issues margined at less than the normal margin rates	Dec-2021 Jan-2023
Schedule 4	Analysis of clients' trading accounts long and short	Dec-2021 Jan-2023
Schedule 4A	List of ten largest value date trading balances with acceptable institutions and acceptable counterparties	Dec-2021 Jan-2023

¹ Schedules 3 and 8 have been removed.

~~Oct-2022~~ [Jan-2023](#)

Form 1 – Table of contents (Continued)

Schedule 5	Analysis of brokers' and dealers' trading balances	Dec-2021 Jan-2023
Schedule 6	Income taxes	Dec-2021 Jan-2023
Schedule 6A	Tax recoveries	Dec-2021 Jan-2023
Schedule 7	Analysis of overdrafts, loans, securities loaned and repurchase agreements	Dec-2021 Jan-2023
Schedule 7A	Cash and securities borrowing and lending arrangements concentration charge	Dec-2021 Jan-2023
Schedule 9	Concentration of securities	Sep-2022 Ja 2023
Schedule 9A	Concentration of securities - General Security Test	Sep-2022 Ja 2023
Schedule 9B	Concentration of securities - Debt Security Test	Sep-2022 Ja 2023
Schedule 10	Insurance	Dec-2021 Jan-2023
Schedule 11	Unhedged foreign currencies calculation	Dec-2021 Jan-2023
Schedule 11A	Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000	Dec-2021 Jan-2023
Schedule 12	Margin on futures concentrations and deposits	Dec-2021 Jan-2023
Schedule 13	Early warning tests - Level 1	Dec-2021 Jan-2023
Schedule 13A	Early warning tests - Level 2	Dec-2021 Jan-2023
Schedule 14	Provider of capital concentration charge	Dec-2021 Jan-2023
Schedule 15	Supplementary information ²	Dec-2021 Jan-2023

² "Schedule 15, Supplementary information", is not part of an audited Form 1 submission and the name of this 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 [#ROCthe Corporation](#).

Each *Dealer Member* must complete and file all of these statements and schedules.

- (2) The following are Form 1 IFRS departures as prescribed by [#ROCthe Corporation](#):

Matter	Prescribed IFRS departure
Client and broker trading balances	For client and broker trading balances, #ROCthe Corporation 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.
Preferred shares	Preferred shares issued by the <i>Dealer Member</i> and approved by #ROCthe Corporation are classified as shareholders' capital.
Presentation	<p>Statements A and E contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. For Statement E, the profit (loss) for the year on discontinued operations is presented on a pre-tax basis (as opposed to after-tax).</p> <p>In addition, specific balances may be classified or presented on Statements A, E and F 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.</p> <p>Statements B, C, and D are supplementary financial information, which are not statements contemplated under IFRS.</p>
Separate financial statements on a non-consolidated basis	<p>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 #ROC Corporation Investment Dealer and Partially Consolidated Rules and #ROCthe Corporation has approved the consolidation.</p> <p>Because Statement E 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.</p>
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	#ROCThe Corporation requirements' " <i>market value</i> " definition differs from the IFRS " <i>fair value</i> " 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.

Form 1 – General notes and definitions (Continued)

- (3) 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	<p>A <i>Dealer Member</i> must categorize all inventory positions as held-for-trading financial instruments. These security positions must be marked-to-market.</p> <p>Because HR<u>ROC</u> <u>the Corporation</u> 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.</p>
Valuation of a <i>subsidiary</i>	A <i>Dealer Member</i> must value <i>subsidiaries</i> at cost.

- (4) These statements and schedules are prepared in accordance with the ~~HR~~ROC Rules Corporation requirements.
- (5) 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 ~~HR~~ROC Corporation Investment Dealer and Partially Consolidated Rules may be consolidated.
- (6) 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.
- (7) *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.
- (8) Comparative figures on all statements are only required at the audit date.
- (9) All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
- (10) 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) 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.
- (12) The following terms have the meanings set out when used in Form 1 and the ~~HR~~ROC 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. HR <u>ROC</u> <u>The Corporation</u> will maintain and regularly update a list of acceptable clearing corporations.
“acceptable”	An entity with whom a <i>Dealer Member</i> may deal on a value for value basis, with mark to market

Form 1 – General notes and definitions (Continued)

<p>counterparty”</p>	<p>imposed on outstanding transactions. The entities are as follows:</p> <ul style="list-style-type: none"> (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. (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. (iv) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over. (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>. <p>For the purposes of this definition, a satisfactory regulatory regime will be one within a <i>Basel</i></p>
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Form 1 – General notes and definitions (Continued)

	<p><i>Accord country.</i></p> <p><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 HROC<u>the Corporation</u>.</i></p>
<p>“acceptable exchange”</p>	<p>An entity that:</p> <ul style="list-style-type: none"> (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, (ii) if applicable, maintains and enforces adequate initial and ongoing listing requirements 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.
<p>“acceptable institution”</p>	<p>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:</p> <ul style="list-style-type: none"> (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. <i>subordinated debt</i>) 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

Form 1 – General notes and definitions (Continued)

	<p>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.</p> <p>For the purposes of this definition, a satisfactory regulatory regime will be one within a <i>Basel Accord country</i>.</p> <p><i>Subsidiaries</i> (other than <i>regulated entities</i>) whose business falls in the category of any of the above enterprises and whose parent or <i>affiliate</i> qualifies as an <i>acceptable institution</i> may also be considered as an <i>acceptable institution</i> if the parent or <i>affiliate</i> provides a written unconditional irrevocable guarantee, subject to approval by HROC<u>the Corporation</u>.</p>
<p>“acceptable securities location”</p>	<p>A location considered suitable to hold securities on behalf of a <i>Dealer Member</i>, for both inventory and client positions, without capital penalty. To be suitable, the location must meet HROC's <u>segregation</u> and custody <u>Corporation requirements</u> 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 provision<u>provisions</u> that:</p> <ul style="list-style-type: none"> • no use or disposition of the securities shall be made without the prior written consent of the <i>Dealer Member</i>, and • the securities can be delivered to the <i>Dealer Member</i> promptly on demand. <p>The entities with locations that are considered suitable are as follows:</p> <p>(i) <i>Depositories and Clearing Agencies</i></p> <p>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 of compliance and enforcement over its members or participants. HROC<u>The Corporation</u> will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria.</p> <p>(ii) <i>Acceptable institutions and subsidiaries of acceptable institutions</i> that satisfy the following criteria:</p> <p>(a) <i>Acceptable institutions</i> which in their normal course of business offer custodial security services, or</p> <p>(b) <i>Subsidiaries of acceptable institutions</i> provided that each such subsidiary, together with the <i>acceptable institution</i>, has entered into a custodial agreement with the <i>Dealer Member</i> containing a legally enforceable indemnity by the <i>acceptable institution</i> in favour of the <i>Dealer Member</i> covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the <i>Dealer Member</i> and its clients at the <i>subsidiary's</i> location.</p> <p>(iii) <i>Acceptable counterparties</i> - with respect to security positions maintained as a book entry of securities issued by the <i>acceptable counterparty</i> and for which the <i>acceptable counterparty</i> is unconditionally responsible.</p> <p>(iv) Banks and trust companies otherwise classified as <i>acceptable counterparties</i> - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required).</p> <p>(v) Mutual Funds or their agents - with respect to security positions maintained as a book entry</p>

Form 1 – General notes and definitions (Continued)

	<p>of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.</p> <p>(vi) <i>Regulated entities.</i></p> <p>(vii) Foreign institutions and securities dealers that satisfy the following criteria:</p> <p>(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:</p> <p>(I) a foreign custodian certificate has been completed and signed in the prescribed form by the <i>Dealer Member's</i> board of directors or authorized committee,</p> <p>(II) a formal application in respect of each such foreign location is made by the <i>Dealer Member</i> to HROCthe Corporation in the form of a letter enclosing the financial statements and certificate described above, and</p> <p>(III) the <i>Dealer Member</i> reviews each such foreign location annually and files a foreign custodian certificate with HROCthe Corporation annually.</p> <p>(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:</p> <p>(a) be a market making member, full member, or affiliate member of the LBMA,</p> <p>(b) be on HROCthe Corporation's list of entities considered suitable to hold LBMA gold and silver good delivery bars, and</p> <p>(c) have executed a written precious metals storage agreement with the <i>Dealer 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.</p> <p>(ix) Other locations which have been approved as an <i>acceptable securities location</i> by HROCthe Corporation.</p>
<p>“Basel Accord country”</p>	<p>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.</p>
<p>“broad based index”</p>	<p>An equity index in which:</p> <p>(i) the basket of <i>equity securities</i> underlying the index consists of thirty or more securities,</p> <p>(ii) the single largest basket security position by weighting comprises not more than 20% of the overall <i>market value</i> of the basket,</p> <p>(iii) the average market capitalization for each security position in the basket of <i>equity securities</i> underlying the index is at least \$50 million,</p>

Form 1 – General notes and definitions (Continued)

	<p>(iv) the basket securities shall be from a broad range of industries and market sectors as determined by HROCthe Corporation to represent index diversification, and</p> <p>(v) the securities constituting the foreign equity index are listed and traded on an <i>acceptable exchange</i>.</p>
<p>“designated rating organization”</p>	<p>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:</p> <p>(i) the corresponding rating category of another <i>designated rating organization</i>,</p> <p>(ii) where applicable, the corresponding rating category for short term debt, and</p> <p>(iii) a category that replaces that rating category.</p>
<p>“extended settlement date”</p>	<p>A transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.</p>
<p>“market value”</p>	<p>Means:</p> <p>(i) For securities, precious metals bullion and <i>futures contracts</i> quoted on an active market, the published price quotation using:</p> <p>(A) For listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or 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,</p> <p>(B) For unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date,</p> <p>(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,</p> <p>(D) For <i>futures contracts</i>, the settlement price on the relevant date or last trading day prior to the relevant date,</p> <p>(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,</p> <p>(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</p> <p>(G) For money market repurchases with borrower call features, the borrower call price,</p>

Form 1 – General notes and definitions (Continued)

	<p>and after making any adjustments considered by the <i>Dealer Member</i> to be necessary to accurately reflect the market value.</p> <p>(ii) Where a reliable price for the security, precious metals bullion or <i>futures contract</i> cannot be determined:</p> <p>(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</p> <p>(B) Where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or</p> <p>(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.</p> <p>(iii) Where a value cannot be reliably determined under subsections (i) and (ii) above, the amount used:</p> <p>(A) to report the total market value of a <i>Dealer Member</i> securities position, and</p> <p>(B) to calculate the margin requirement for a client account securities position, shall be zero.</p>
<p>“regulated entity”</p>	<p>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 IIROCthe Corporation.</p> <p>For the purposes of this definition, regulators and self-regulatory organizations with equivalent dealer regulatory oversight must meet the following criteria:</p> <p>(i) require its dealers to be member firms of the Canadian <i>Investor Protection Fund</i> (CIPF/IPF) or of an investor protection regime that is equivalent to CIPF/IPF,</p> <p>(ii) be a government agency or a self-regulatory organization subject to regulatory oversight reviews by a government agency,</p> <p>(iii) require the <i>segregation</i> of customers’ fully paid for securities by its regulated dealers,</p> <p>(iv) have rules that set out specific methodologies for the <i>segregation</i> of, or reserve for, customer credit balances,</p> <p>(v) have established rules regarding dealer and customer account margining,</p> <p>(vi) conduct regular examinations of its regulated dealers and monitor their regulatory capital on an ongoing basis, and</p> <p>(vii) require regular regulatory financial reporting by its regulated dealers.</p> <p>The regulators and self-regulatory organizations are determined at the discretion of IIROCthe Corporation, as made available on IIROCthe Corporation’s website.</p>
<p>“regular settlement date”</p>	<p>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.</p>

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

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 *Dealer Member* at _____ and the results of operations for the period then ended, and are in agreement with the books of the *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](#) ~~requirements of HROC~~:

- | | Answer |
|---|---------------|
| 1. Does the <i>Dealer Member</i> have adequate <i>internal controls</i> in accordance with the rules? | _____ |
| 2. Does the <i>Dealer Member</i> maintain adequate books and <i>records</i> in accordance with the rules? | _____ |
| 3. Does the <i>Dealer Member</i> monitor on a regular basis its adherence to early warning requirements in accordance with the rules? | _____ |
| 4. Does the <i>Dealer Member</i> carry insurance of the type and in the amount required by the rules? | _____ |
| 5. Does the <i>Dealer Member</i> determine on a regular basis its free credit <i>segregation</i> amount and act promptly to segregate assets as appropriate in accordance with the rules? | _____ |
| 6. Does the <i>Dealer Member</i> promptly segregate clients' securities in accordance with the rules? | _____ |
| 7. Does the <i>Dealer Member</i> follow the minimum required policies and procedures relating to security counts? | _____ |
| 8. Have all "concentrations of securities" been identified on Schedule 9? | _____ |
| 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 <i>options</i> ? | _____ |
| 11. All future purchase and sales commitments? | _____ |
| 12. Writs issued against the <i>Dealer Member</i> 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 <i>Dealer Member</i> ? | _____ |

Ultimate Designated Person

Date

Chief Financial Officer

Date

Other *Executive*, if applicable

Date

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

- (1) Details must be given for any “no” answers.
- (2) 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.

Independent Auditor's Report for Statements A, E and F

To: ~~Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization> and ~~Canadian Investor Protection Fund~~ <name of Investor Protection Fund>

Opinion

We have audited the Statements of Form 1 of _____ <Dealer Member's name> _____, which comprise of:

- Statement A - Statements of financial position as at _____ <date> _____ and _____ <date> _____,
- Statement E - Statements of income and comprehensive income for the years ended _____ <date> _____ and _____ <date> _____,
- Statement F - Statements of changes in capital for the year ended _____ <date> _____, and changes in retained earnings (or undivided profits) for the years ended _____ <date> _____ and _____ <date> _____, and notes to the Statements, including a summary of significant accounting policies (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 _____ <date> _____ and _____ <date> _____, 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 ~~the Investment Industry Regulatory Organization of Canada~~ <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 ~~the Investment Industry Regulatory Organization of Canada~~ <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

We have not audited the information in Schedules 13 and 13A 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)

Our report is intended solely for the Dealer Member, ~~the Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization> and ~~the Canadian Investor Protection Fund~~ <name of Investor Protection Fund> and should not be used by parties other than the Dealer Member, ~~the Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization> and ~~the Canadian Investor Protection Fund~~ <name of Investor Protection Fund>.

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 ~~the Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization>, 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, E and F (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, C, and D

To: ~~Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization> and ~~Canadian Investor Protection Fund~~ <name of Investor Protection Fund>

Opinion

We have audited the Statements of Form 1 of _____ <Dealer Member's name> _____, which comprise of:

- Statement B - Statements of net allowable assets and risk adjusted capital as at _____ <date> _____ and _____ <date> _____
- Statement C - Statements of early warning excess and early warning reserve as at _____ <date> _____,
- Statement D - Statements of free credit segregation amount as at _____ <date> _____ (collectively referred to as the Statements).

In our opinion, the accompanying Statement B as at _____ <date> _____ and _____ <date> _____, Statement C and D as at _____ <date> _____ are prepared, in all material respects, in accordance with the financial reporting provisions of the notes and instructions to Form 1 prescribed by ~~the Investment Industry Regulatory Organization of Canada~~ <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 ~~the Investment Industry Regulatory Organization of Canada~~ <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

We have not audited the information in Schedules 13 and 13A 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)

Our report is intended solely for the Dealer Member, ~~the Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization> and ~~the Canadian Investor Protection Fund~~ <name of Investor Protection Fund> and should not be used by parties other than the Dealer Member, ~~the Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization> and ~~the Canadian Investor Protection Fund~~ <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 ~~the Investment Industry Regulatory Organization of Canada~~ <name of Self-Regulatory Organization>, 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.

Independent Auditor's Report for Statement B, C, and D (Continued)

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.

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) Any limitations in the scope of the audit must be discussed in advance with ~~HRG~~[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 ~~HRG~~[the Corporation](#).

Form 1, Part 1 – Statement A

Dealer Member's name

Statement of financial position

at _____

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

Form 1, Part 1 – Statement A (Continued)

25. Property, plant and equipment		.....	.....	.....
26. Investments in <i>subsidiaries</i> and <i>affiliates</i>		.....	.....	.....
27. Advances to <i>subsidiaries</i> and <i>affiliates</i>		.....	.....	.....
28. Other assets [provide details]		.....	.....	.....
29. Total non-allowable assets			=====	=====
30. Finance lease assets		.....	.....	.....
31. Total assets			=====	=====
Current liabilities				
51. Overdrafts, loans, securities loaned and repurchases	Sch. 7	.....	=====	=====
52. Securities sold short - at <i>market value</i>	Sch. 2	.....	.....	.....
53. Client accounts	Sch. 4	.....	.....	.....
54. Brokers and dealers	Sch. 5	.....	.....	.....
55. Provisions		.....	.....	.....
56. Current income tax liabilities	Sch. 6	.....	.....	.....
57. Bonuses payable		.....	.....	.....
58. Accounts payable and accrued expenses		.....	.....	.....
59. Finance leases and lease-related liabilities		.....	.....	.....
60. Other current liabilities [provide details]		.....	.....	.....
61. Total current liabilities			=====	=====
Non-current liabilities				
62. Provisions		.....	.....	.....
63. Deferred tax liabilities		.....	.....	.....
64. Finance leases and lease-related liabilities		.....	.....	.....
65. Other non-current liabilities [provide details]		.....	.....	.....
66. Subordinated loans		.....	.....	.....
67. Total non-current liabilities			=====	=====
68. Total liabilities [Line 61 plus Line 67]			=====	=====
Capital and reserves				
69. Issued capital	Stmt. F	.....	.....	.....
70. Reserves	Stmt. F	.....	.....	.....
71. Retained earnings or undivided profits	Stmt. F	.....	.....	.....
72. Total capital			=====	=====
73. Total liabilities and capital [Line 68 plus Line 72]			=====	=====

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 RRSP or other similar accounts must qualify as an *acceptable institution*. Such 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 28 (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 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 11 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 11 of Schedule 2.
- (5) **Line 11** - For an *introducing broker* (pursuant to an approved introducing/carrying broker agreement), unsecured balances receivable from its *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.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 11 of Schedule 2.

In the case of the salesperson'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 salesperson's commission until it is received, the salesperson's portion of the gross commission receivable is an allowable asset.
- (6) **Line 13** - 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.
- (7) **Line 14** - 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*.
- (8) **Line 18** - 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*.
- (9) **Line 19** - Report the cash and *market value* of securities lodged with *acceptable clearing corporations* that represent fixed base deposits.
- (10) **Line 20** - To the extent receivable from other than *acceptable clearing corporations*, include all deposits whether margin deposits or variable and fixed base deposits.
- (11) **Line 21** - To the extent receivable from parties other than *acceptable institutions*.
- (12) **Line 22** - To the extent receivable from parties other than *acceptable institutions*.
- (13) **Line 24** - Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.
- (14) **Line 26** - Investments in *subsidiaries* and *affiliates* must be valued at cost.
- (15) **Line 27** - A *Dealer Member* must report non-trading inter-company receivables on a gross basis unless the criteria for netting are met.
- (16) **Line 28** - Including but not limited to such items as:

Form 1, Part I – Statement A
Notes and instructions (Continued)

- 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

(17) **Line 29** - Non-allowable assets mean those assets that do not qualify as allowable assets.

(18) **Line 30** - Assets arising from a finance lease (also known as a capitalized lease).

(19) **Line 55** - 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) **Line 57** - Include discretionary bonuses payable and bonuses payable to shareholders in accordance with share ownership.

(21) **Line 60** - Include unclaimed dividends and interest.

(22) **Line 66** - Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to [HROCthe Corporation](#), obtained from a *chartered bank* or any other lending institution, *industry investor* approved as such by [HROCthe Corporation](#), or non-industry investor subject to [HROCthe 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 [HROCthe Corporation](#) are parties.

(23) **Line 70** - 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) **Line 71** - Retained earnings represent 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.

Form 1, Part I – Statement B

Dealer Member's name

Statement of net allowable assets and risk adjusted capital

at _____

	<u>Reference</u>	<u>Notes</u>	<u>Current year C\$000's</u>	<u>Previous year C\$000's</u>
1. Total capital	A-72	.....	.....	.....
2. Add: Non-refundable leasehold inducements		.....	.....	.....
3. Add: Subordinated loans	A-66	.....	.....	.....
4. Regulatory financial statement capital [Sum of Line 1 to 3]		.....	.....	.....
5. Deduct: Total non-allowable assets	A-29	.....	.....	.....
6. Net allowable assets [Line 4 minus Line 5]		.....	.....	.....
7. Deduct: Minimum capital		.....	.....	.....
8. Subtotal [Line 6 minus Line 7]		.....	.....	.....
Deduct - Margin required:				
9. Loans receivable, securities borrowed and resold	Sch.1	.....	.....	.....
10. Securities owned and sold short	Sch.2	.....	.....	.....
11. Underwriting concentration	Sch.2A	.....	.....	.....
12. Client accounts	Sch.4	.....	.....	.....
13. Brokers and dealers	Sch.5	.....	.....	.....
14. Loans and repurchases	Sch.7	.....	.....	.....
15. Contingent liabilities [provide details]		.....	.....	.....
16. Financial Institution Bond deductible [greatest under any clause]	Sch.10	.....	.....	.....
17. Unhedged foreign currencies	Sch.11	.....	.....	.....
18. <i>Futures contracts</i>	Sch.12	.....	.....	.....
19. Provider of capital concentration charge	Sch.14	.....	.....	.....
20. Securities held at non-acceptable securities locations		.....	.....	.....
21. <i>Acceptable counterparties</i> financing activities concentration charge	Sch.7A	.....	.....	.....
22. Unresolved differences [provide details]		.....	.....	.....
23. Other [provide details]		.....	.....	.....
24. Total margin required [Sum of Lines 9 to 23]		.....	.....	.....
25. Subtotal [Line 8 less Line 24]		.....	.....	.....
26. Add: Applicable tax recoveries	Sch.6A	.....	.....	.....
27. <i>Risk adjusted capital</i> before securities concentration charge [Line 25 plus Line 26]		.....	.....	.....
28. Deduct: Securities concentration charge of _____ less tax recoveries of _____	Sch.9 Sch.6A	..........	..........	..........
29. Risk adjusted capital [Line 27 less Line 28]		.....	.....	.....

Form 1, Part I – Statement B supplemental

Dealer Member's name

Date

Statement B – Line 22: Details of unresolved differences

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

B- 22

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 [HROC 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*.

(4) **Line 7 – Minimum capital**

“Minimum capital” is \$250,000 except for a Type 1 *introducing broker*. For a Type 1 *introducing broker*, the minimum capital is \$75,000.

(5) **Line 15 – 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 [HROC Rules 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 [HROC the Corporation's](#) review.

(6) **Line 20 – 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 22 below.
- (b) Where the entity does not qualify as an *acceptable securities location*, the entity shall be considered a non-acceptable 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 [HROC Rules Corporation requirements](#), the capital requirement shall be determined as follows:

- (l) 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

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

(B) 100% of the *market value* of the securities held in custody with the entity,
and

(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 ~~HROC~~the Corporation. Such a consent and waiver must be obtained on a transaction by transaction basis.

(7) **Line 22 – 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 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 ~~HROC~~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
Unresolved long with money on the <i>Dealer Member's</i> book	Money balance on the trade minus <i>market value</i> of the

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

Type of unresolved difference	Amount required to margin
	security ¹ plus the applicable inventory margin
Unresolved long without money on the <i>Dealer Member's</i> books	None

Unresolved short with money on the <i>Dealer Member's</i> books	<i>Market value</i> of the security minus money balance on the trade ² 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

Where 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%.

(8) Statement B Supplemental

- (i) Unresolved differences in accounts:

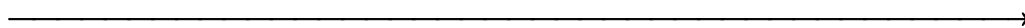
Report all differences determined on or before the report date that have not been resolved as of the due date.

Month end

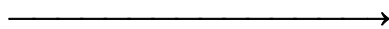
Month end plus 20 business days



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

¹ Money balance on the trade minus *market value* of the security is also referred to as the mark-to-market adjustment.

² *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) **Line 23 – Other**

This item should include all margin requirements not mentioned above as outlined in ~~HROC Rules~~ [the Corporation requirements](#).

Form 1, Part I – Statement C

Dealer Member's name

Statement of early warning excess and early warning reserve

at _____

	<u>Reference</u>	<u>Notes</u>	<u>Current year C\$000's</u>
1. <i>Risk adjusted capital</i>	B-29		
Liquidity items			
2. Deduct: Other allowable assets	A-18	-----	-----
3. Deduct: Tax recoveries	Sch.6A	-----	-----
4. Deduct: Securities held at non-acceptable securities locations		-----	-----
5. Add: Non-current liabilities	A-67	-----	-----
6. Less: Subordinated loans	A-66	-----	-----
7. Less: Finance leases and lease-related liabilities	A-64	-----	-----
8. Adjusted non-current liabilities for early warning purposes [Lines 5 less Lines 6 and 7]		-----	-----
9. Add: Tax recoveries - income accruals	Sch.6A	-----	-----
10. Early warning excess [Line 1 less Lines 2 through 4 plus lines 8 and 9]		-----	-----
11. Deduct: Capital cushion - <i>Total margin required</i> \$ _____ multiplied by 5%	B-24	-----	-----
12. Early warning reserve [Line 10 less Line 11]			-----

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 ~~HROC Rules~~ [the Corporation requirements](#) will apply.
- (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.
- (4) **Line 4** - Pursuant to the notes and instructions for the completion of Statement B, Line 20, 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 ~~HROC Rules~~ [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 20 to determine the capital requirement to be reported on Statement C, Line 4.
- (5) **Line 5, 6, 7 and 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.
- (6) **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 ~~HROC Rules~~ [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 ~~HROC Rules~~ [the Corporation requirements](#) will apply.

Form 1, Part I – Statement D

Dealer Member's name

Statement of free credit segregation amount

at _____

	<u>Reference</u>	<u>Notes</u>	<u>Current year C\$000's</u>
A. Amount required to segregate based on general free credit limit			
General client free credit limit			
1. <i>Early warning reserve</i> of \$_____ multiplied by 12 [Report NIL if amount is negative] Less client <i>free credit balances</i> :	C-12		_____
2. <i>Dealer Member's own</i>	Sch.4		_____
3. Carried for Type 3 Introducers			_____
4. Total client <i>free credit balances</i> [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]			_____
B. Amount required to segregate based on margin lending adjusted client free credit limit			
Client free credit limit for margin lending purposes			
1. <i>Early warning reserve</i> of \$_____ multiplied by 20 [Report NIL if amount is negative] Less client <i>free credit balances</i> used to finance client margin loans:	C-12		_____
2. Total settlement date client margin debit balances			_____
3. Total client <i>free credit balances</i> [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. <i>Early warning reserve</i> [Report NIL if amount is negative]	C-12		_____
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. Amount 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]			_____

Form 1, Part I – Statement D (Continued)

D. Amount in segregation

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

Form 1, Part I – Statement D
Notes and instructions

- (1) The client free credit limit and *segregation* requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests.
- (2) **Section A, Lines 2 and 3** - *Free credit balances* in RRSP and other similar accounts should not be included. Refer to the notes and instructions to Schedule 4 for discussion of trade versus settlement date reporting of *free credit balances*. For purposes of this statement, a free credit is:
- (a) For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.
- (b) For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open *futures contracts and/or futures contracts option* positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.
- (3) **Section A, Line 5** - If nil, no further calculation on this Statement need be done.
- (4) **Section B, Line 2** - Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.
- (5) **Section D, Line 1** - The cash must be segregated in trust for clients in a separate account or accounts with an *acceptable institution* and this trust property must be clearly identified as such at the *acceptable institution*.

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

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

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following: (i) national governments of Canada, United Kingdom, and United States, or (ii) Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government of a <i>Basel Accord country</i>
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	<i>No designated rating organization</i> has a lower current credit rating Must be issued by a Canadian <i>chartered bank</i> Securities issued by a <i>provider of capital</i> , as defined in the notes and instructions to Schedule 14 are not eligible

Form 1, Part I – Statement D
Notes and instructions (Continued)

- (7) **Section D, Line 4** - If negative, then a *segregation* deficiency exists, and the *Dealer Member* must correct the *segregation* deficiency within 5 *business days* following the determination of the deficiency. The *Dealer Member* must provide an explanation of how the deficiency was corrected and the date of correction.

Form 1, Part I – Statement E

Dealer Member's name

Statement of income and comprehensive income

for the period ended _____

	<u>Reference</u>	<u>Notes</u>	<u>Current year / month C\$000's</u>	<u>Previous year / month C\$000's</u>
Commission Revenue				
1.	Listed Canadian securities	.....	.....	.....
2.	Other securities	.....	.....	.....
3.	Mutual funds	.....	.....	.....
4.	Listed Canadian <i>options</i>	.....	.....	.....
5.	Other listed <i>options</i>	.....	.....	.....
6.	Listed Canadian <i>futures contracts</i>	.....	.....	.....
7.	Other <i>futures contracts</i>	.....	.....	.....
8.	Over-the-counter <i>derivatives</i>	.....	.....	.....
Principal revenue				
9.	Listed Canadian <i>options</i> and related underlying securities	.....	.....	.....
10.	Other equities and <i>options</i>	.....	.....	.....
11.	Debt	.....	.....	.....
12.	Money market	.....	.....	.....
13.	<i>Futures contracts</i>	.....	.....	.....
14.	Over-the-counter <i>derivatives</i>	.....	.....	.....
Corporate finance revenue				
15.	New issues – equity	.....	.....	.....
16.	New issues – debt	.....	.....	.....
17.	Corporate advisory fees	.....	.....	.....
Other revenue				
18.	Interest	.....	.....	.....
19.	Fees	.....	.....	.....
20.	Other [provide details]	.....	.....	.....
21.	Total revenue		_____	_____
Expenses				
22.	Variable compensation	.....	.....	.....
23.	Commissions and fees paid to third parties	.....	.....	.....
24.	Bad debt expense	.....	.....	.....
25.	Interest expense on <i>subordinated debt</i>	.....	.....	.....
26.	Financing cost	.....	.....	.....
27.	Corporate finance cost	.....	.....	.....

Form 1, Part I – Statement E (Continued)

28.	Unusual items [provide details]	.....	.....	.....
29.	Pre-tax profit (loss) for the period from discontinued operations	.....	.....	.....
30.	Operating expenses	.....	.....	.....
31.	Profit (loss) for early warning test	.....	=====	=====
32.	Income – Asset revaluation	.....	.....	.....
33.	Expense – Asset revaluation	.....	.....	.....
34.	Interest expense on internal <i>subordinated debt</i>	.....	.....	.....
35.	Bonuses	.....	.....	.....
36.	Net income (loss) before income tax	.....	=====	=====
37.	Income tax expense (recovery), including taxes on profit (loss) from discontinued operations	S-6(5)	.....	.....
38.	Profit (loss) for period		=====	=====
			F-11	
Other comprehensive income				
39.	Gain (loss) arising on revaluation of properties	.....	.....	.....
			F-5a	
40.	Actuarial gain (loss) on defined benefit pension plans	.....	.....	.....
			F-5b	
41.	Other comprehensive income for the period, net of tax [Lines 39 plus 40]		.....	.....
42.	Total comprehensive income for the period [Lines 38 plus 41]		=====	=====
The following lines must also be completed when filing the MFR:				
43.	Payment of dividends or partner’s drawings	.....	.....	.....
44.	Other [provide details]	.....	.....	.....
45.	Net change to retained earnings [Sum of Lines 38, 43 and 44]		=====	=====

Form 1, Part I – Statement E
Notes and instructions

(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) the use of the revaluation model for plant, property and equipment (PPE) and intangible assets, and
- (ii) the actuarial gain (loss) on defined benefit pension plans.

(2) **Line 1** - Include all gross commissions earned on listed Canadian securities.

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

(3) **Line 2** - Include gross commissions earned on over-the-counter transactions (equity or debt, foreign or Canadian), rights and offers, and other foreign securities.

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) **Line 3** - Include all gross commissions and trailer fees earned on mutual 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).

(5) **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* 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 6** - Include all gross commissions earned on listed *futures contracts* cleared through the CDCC.

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

(8) **Line 7** - Include all gross commissions earned on foreign listed *futures contracts*.

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

(9) **Line 8** - Include gross commissions earned on *over-the-counter options*, forwards, contracts-for-difference, FX spot, and swaps.

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

(10) **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 except those indicated on Line 9 (Principal revenue: listed Canadian *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).

(12) **Line 11** - 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).

(13) **Line 12** - Include revenue on all money market activities. Money market commissions should also be shown here.

Include any adjustment of inventories to *market value*.

Form 1, Part I – Statement E
Notes and instructions (Continued)

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

- (14) **Line 13** - Include all principal revenue (trading profits/losses) on *futures contracts*.
- (15) **Line 14** - Include revenues from over-the-counter *derivatives*, such as forward contracts and swaps.
Include adjustment of inventories to *market value*.
- (16) **Line 15** - 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 (Expenses: corporate finance cost).
- (17) **Line 16** - 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 (Expenses: corporate finance cost).
- (18) **Line 17** - Include revenue relating to corporate advisory fees, such as corporate restructuring, privatization, M&A fees.
The related expenses must be reported separately on Line 27 (Expenses: corporate finance cost).
- (19) **Line 18** - 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 26 (Expenses: financing cost).
- (20) **Line 19** - 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.
- (21) **Line 20** - Include foreign exchange profits/losses and all other revenue not reported above.
- (22) **Line 22** - 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 35 (Expenses: bonuses).
- (23) **Line 23** - Include payouts to other brokers and mutual funds.
- (24) **Line 25** - Include all interest on external *subordinated debt*, as well as non-discretionary contractual interest on internal *subordinated debt*.
- (25) **Line 26** - Include the financing cost for all inventory trading (related to Lines 9, 10, 11 and 12) and the cost of carrying client balances (related to Line 18).
- (26) **Line 27** - Include syndicate expenses and any related corporate finance expenses, as well as CSB fees.
- (27) **Line 28** - 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 29 (Expenses: profit/loss for the period from discontinued operations).
- (28) **Line 29** - 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 37.
- (29) **Line 30** - Include all operating expenses (including those related to soft dollar deals).

Form 1, Part I – Statement E
Notes and instructions (Continued)

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.

- (30) **Line 31** - This is the profit/loss number used for the early warning profitability tests.
- (31) **Line 32** - 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.
- (32) **Line 33** - 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.
- (33) **Line 34** - Include interest expense on *subordinated debt* with related parties for which the interest charges can be waived if required.
- (34) **Line 35** - 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 22 (Expenses: variable compensation).
- (35) **Line 37** - 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 30 (Expenses: operating expenses).
- (36) **Line 39** - 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 or expense from asset revaluation.
- (37) **Line 40** - 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) **Line 41** - For MFR reporting, other comprehensive income for the period on Line 41 is the net change to reserves on Statement A Line 70.
- (39) **Line 43** - To be used for MFR filing only.
- (40) **Line 44** - To be used for MFR 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 E line items on the first MFR that is filed after the adjustment is known.

Form 1, Part 4 – Statement F

Dealer Member's name

Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships)

for the year ended _____

A. Changes in issued capital

	Notes	Share capital or partnership capital [a] C\$000's	Share premium [b] C\$000's	Issued capital [c] = [a] + [b] C\$000's
1. Beginning balance	-----	-----	-----	-----
2. Increases (decreases) during the period [provide details]				
(a)	-----	-----	-----	-----
(b)	-----	-----	-----	-----
(c)	-----	-----	-----	-----
3. Ending balance		=====	=====	=====

A-69

B. Changes in reserves

	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	-----	-----	E-39	-----	-----	-----
(b) Other comprehensive income for the year – actuarial gain (loss) on defined benefit pension plans	-----	-----	-----	-----	E-40	-----
(c) Recognition of share-based payments	-----	-----	-----	E-30	-----	-----
(d) Transfer from/to retained earnings	-----	F-12	-----	-----	-----	-----
(e) Other [provide details]	-----	-----	-----	-----	-----	-----
6. Ending balance	-----	=====	=====	=====	=====	=====

A-70

Form 1, Part 41 – Statement F (Continued)

C. Changes in retained earnings

	<u>Notes</u>	<u>Retained earnings (Current year) C\$000's</u>	<u>Retained earnings (Previous year) C\$000's</u>
7. Beginning balance	-----	-----	-----
8. Effect of change in accounting policy [provide details]			
(a)	-----	N/A	-----
(b)	-----	N/A	-----
9. As restated	-----	N/A	-----
10. Payment of dividends or partners drawings	-----	-----	-----
11. Profit or loss for the year	-----	E-38	-----
12. Other direct charges or credits to retained earnings [provide details]			
(a)	-----	-----	-----
(b)	-----	-----	-----
(c)	-----	-----	-----
13. Ending balance		----- ----- A-71	----- -----

Form 1, Part I – Statement F
Notes and instructions

(1) Section A - Changes in issued capital

(i) Change in share or partnership capital

Depending on the circumstances, a *Dealer Member* must either formally notify or obtain prior approval from ~~ROC~~[the Corporation](#) for any change in any class of common and preferred share or partnership capital.

(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

(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.

Form 1, Part I - Notes

Dealer Member's name

Notes to the Form 1 financial statements

at _____

Form 1, Part II

Agreed-upon Procedures Report on compliance for insurance, segregation of securities, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year

To: _____ <Dealer Member>

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of providing _____ <Dealer Member> (Dealer Member) with information to assist the ~~Investment Industry Regulatory Organization of Canada (IIROC)~~ <name of Self-Regulatory Organization> and the ~~Canadian Investor Protection Fund (CIPF)~~ <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, and maintaining guarantee/guarantor relationships for margin relief as outlined in the ~~IIROC Corporation Investment Dealer and Partially Consolidated~~ Rules listed in the Procedures and Findings section below and may not be suitable for another purpose.

Responsibilities of the engaging party

The Dealer Member, ~~IIROC and CIPF~~ _____ <name of Self-Regulatory Organization> and _____ <name of Investor Protection Fund> have acknowledged that the agreed-upon procedures, as required by ~~IIROC~~ <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) 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

[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.]

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 securities, and maintaining guarantee/guarantor relationships for margin relief as outlined in the ~~IIROC Corporation Investment Dealer and Partially Consolidated~~ Rules listed in the Procedures and Findings section below.

Form 1, Part II (Continued)

#	Procedures	Findings [State the results of the procedures performed]
(1)	<p>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:</p> <ul style="list-style-type: none"> (i) maintaining insurance coverage as required in Part C of HROC Corporation Investment Dealer and Partially Consolidated Rule 4400, and (ii) segregation of client securities as required in Part A of HROC Corporation Investment Dealer and Partially Consolidated Rule 4300. 	
(2)	<p>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 securities meet the minimum requirements in Part A of HROC Corporation Investment Dealer and Partially Consolidated Rule 4300 and Part C of HROC Corporation Investment Dealer and Partially Consolidated Rule 4400 as at _____ <period end date> and have been implemented.” The name and title of those of management who provided the written representation are to be reported in the findings.</p>	
(3)	<p>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 HROC Corporation Investment Dealer and Partially Consolidated Rules as at _____ <period end date>.”</p>	
(4)	<p>Obtain the Financial Institution Bond Form #14 insurance policy (FIB) as at _____ <period end date> _____, from management of the Dealer Member, and inspect whether the FIB:</p> <ul style="list-style-type: none"> (i) clauses exist as per section 4456 of the HROC Corporation Investment Dealer and Partially Consolidated Rules for: <ul style="list-style-type: none"> (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 HROC Corporation Investment Dealer and Partially Consolidated Rules. 	
(5)	<p>From a listing of all Dealer Member insurance brokers as at _____ <period end date> _____, provided by management of the Dealer Member, confirm items (a) to (k) below for each insurance broker and report differences from details reported in the FIB and Form 1:</p> <ul style="list-style-type: none"> (a) Insurance company name (b) Name of insured (c) FIB/registered mail (d) Expiry date (e) Coverage (f) Type of aggregate limit (g) Provision for full reinstatement (h) Premium (i) Clauses 	

Form 1, Part II (Continued)

	<p>(j) Deductible</p> <p>(k) Losses and claims</p>	
(6)	<p>From a listing of all clients as at <u><period end date></u>, provided by management of the Dealer Member, select 10¹ client account statements.</p> <p>(i) Calculate the client net equity amount at as <u><period end date></u> for each client statement selected in accordance with the notes and instructions to Schedule 10 of Form 1. Calculate the total value of the securities for each client selected using the bid/ask price, where applicable.</p> <p>(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><period end date></u>, provided by management of the Dealer Member.</p> <p>(iii) Agree the total client net equity from the Total Client Net Equity Report as at <u><period end date></u>, provided by management of the Dealer Member, to Schedule 10 of Form 1.</p>	
(7)	<p>From a listing of all segregation locations as at <u><period end date></u>, provided by management of the Dealer Member, inspect that each segregation location meets the definition of “acceptable securities locations” as defined in the general notes and definitions to Form 1.</p>	
(8)	<p>From a listing of all clients as at <u><period end date></u>, provided by management of the Dealer Member, select 10 client account statements. For each client account statement selected:</p> <p>(i) Calculate the segregation requirements in accordance with Part A of HROC Corporation Investment Dealer and Partially Consolidated Rule 4300.</p> <p>(ii) Agree the calculation in procedure (8)(i) to the Segregation Report as at <u><period end date></u>, provided by management of the Dealer Member.</p>	
(9)	<p>From the Undersegregation Reports, provided by management of the Dealer Member, select 10 security positions reported as being undersegregated at various dates throughout the year. For the selected 10 security positions, inspect that the undersegregation was corrected within the timelines required by Part A of HROC Corporation Investment Dealer and Partially Consolidated Rule 4300.</p>	
(10)	<p>From the list of hypothecated securities as at <u><period end date></u>, provided by management of the Dealer Member, select 10 security positions and compare each security position to the Segregation Report as at <u><period end date></u>, provided by management of the Dealer Member, and inspect that security positions held in segregation were not used to secure call loans.</p>	
(11)	<p>From the Stock Record and Position Report (SRP) as at <u><period end date></u>, provided by management of the Dealer Member, select 10 security 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 inspect that the stock message on the customer account statement appropriately indicates whether that the security position was held in segregation.</p> <p>Select 10 segregated securities from customer account statements as at</p>	

¹ Samples are to be selected statistically, haphazardly or randomly.

Form 1, Part II (Continued)

	<p><period end date> , provided by management of the Dealer Member, and trace each segregated security to the SRP as at <period end date> and to the Segregation Report as at <period end date> , provided by management of the Dealer Member to inspect that the security position was held in segregation.</p>	
(12)	<p>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 guarantee relationships:</p> <ul style="list-style-type: none"> (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 <period end date> . (ii) Compare the wording of the guarantee agreements to the requirements in section 5825 of the HRROC Corporation Investment Dealer and Partially 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, ~~HR~~[ROC the Corporation](#) and ~~CIPF~~[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]	
	_____	_____	_____	_____
Loan receivable				
1. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
2. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
3. <i>Regulated entities</i>	_____	N/A	_____	_____
4. Others [see note 15]	_____	N/A	_____	_____
Securities borrowed				
5. <i>Acceptable institutions</i>	_____	_____	_____	_____
6. <i>Acceptable counterparties</i>	_____	_____	_____	_____
7. <i>Regulated entities</i>	_____	_____	_____	_____
8. Others [see note 15]	_____	_____	_____	_____
Resale agreements				
9. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
10. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
11. <i>Regulated entities</i>	_____	N/A	_____	_____
12. Others [see note 15]	_____	N/A	_____	_____
13. Total [Sum of lines 1 through 12]	_____		_____	_____
	A-6			B-9

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”	<p>(i) For a <i>cash loan receivable</i>, any excess of the amount of the loan over the <i>market value</i> of the actual collateral received from the transaction counterparty, or</p> <p>(ii) For a <i>securities borrow arrangement</i>, any excess of the <i>market value</i> of the actual collateral provided to the transaction counterparty over:</p> <p style="padding-left: 40px;">(a) 102% of the <i>market value</i> of the securities borrowed, where cash is provided as collateral, or</p> <p style="padding-left: 40px;">(b) 105% of the <i>market value</i> of the securities borrowed, where securities are provided as collateral.</p>
“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:

- (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 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.

- (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:

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

- (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
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> ¹
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> ¹
Other	Margin

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

(7) Securities borrow arrangements

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

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

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
 - (I) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the *Dealer Member*.

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

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

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loan collateral must be held by the third party custodian and if the loan collateral is made up of securities there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the

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

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

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

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

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

(iv) Margin requirements for securities borrow arrangements

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

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
 - (I) for principal securities borrow arrangements, the counterparty is the principal in the securities borrow arrangement,
 - (II) for agency securities borrow arrangements, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
 - (III) for agency securities borrow arrangements, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal lender,

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

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

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

(8) Securities 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

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

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:
 - (A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.

(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 re-hypothecate the purchased securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.

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

(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:

- (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:

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

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

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

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in notes 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
<i>Acceptable institution</i>	No margin ¹
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency ¹
<i>Regulated entity</i>	<i>Market value</i> deficiency ¹
Other	Margin

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

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

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

- (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".

Form 1, Part II – Schedule 2

Dealer Member's name

Date

Analysis of securities owned and sold short at market value

Category	Market value		Margin required C\$000's
	Long C\$000's	Short C\$000's	
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			
4. <i>Options</i>			
5. <i>Futures contracts</i>	Nil	Nil	
6. <i>Over-the-counter derivatives</i>			
7. Registered traders, specialists and market makers	Nil	Nil	
8. Total			
		A-52	B-10
9. Less: Securities, including accrued interest, segregated for client free credit ratio calculation			
	A-8 and D-Sec. D-2		
10. Adjusted total			
	A-7		

Supplementary information

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

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) as of the reporting date. The margin rates to be used are those outlined in [HROC Rules 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.

(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 [HROC 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.

(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 7 - 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 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

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

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) **Line 9** - The following securities are eligible for client free credit *segregation* purposes, provided they are segregated and held separate and apart from the *Dealer Member's* property:

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following: (i) national governments of Canada, United Kingdom, and United States, or (ii) Canadian provincial governments.	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1.	AAA	Foreign government of a <i>Basel Accord country</i>
3.	Canadian bank paper with an original maturity of 1 year or less.	R-1(low), F1, P-1, A-1(low)	No <i>designated rating organization</i> has a lower current credit rating. Must be issued by a Canadian <i>chartered bank</i> . Securities issued by a <i>provider of capital</i> , as defined in notes and instructions to Schedule 14, are not eligible.

- (10) **Line 12** - 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).

Form 1, Part II – Schedule 2A

Dealer Member's name

Date

Margin for concentration in underwriting commitments

Individual concentration

Description [see note 3]	<i>Market value</i> 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]	<i>Market value</i> 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]					

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.

Form 1, Part II – Schedule 4

Dealer Member's name

Date

Analysis of clients' trading accounts long and short

Category	Balances		Amount required to fully margin C\$000's
	Debit C\$000's	Credit C\$000's	
1. <i>Acceptable institutions</i>	_____	_____	_____
2. <i>Acceptable counterparties</i>	_____	_____	_____
3. Other clients:			
(a) Margin accounts	_____	_____	_____
(b) Cash accounts	_____	_____	_____
(c) Futures accounts	_____	_____	_____
(d) Unsecured debits and shorts	_____	N/A	_____
4. Margin on extended settlements	N/A	N/A	_____
5. Free credits	N/A	D-Sec. A-2	N/A
5. (a) Free credits, pending trades [if applicable]	N/A		N/A
6. RRSP and other similar accounts	_____	_____	_____
7. Less - allowance for bad debts	_____	_____	_____
8. Total	A-9	A-53	B-12
9. 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 ~~HRO~~[the Corporation](#).
- (2) **Lines 1 to 3** - 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 4.
- (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 any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date shall be margined.
- This line is to include all trading balances with *acceptable institutions* except *free credit balances*, which should be included on Line 5.
- (4) **Line 2** - In the case of a *regular settlement date* transaction in the account of an *acceptable counterparty* the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency calculated by determining the difference between (i) the net *market value* of all settlement date security positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).
- Any transaction, which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade date, shall be margined.
- This line is to include all trading balances with *acceptable counterparties* except *free credit balances*, which should be included on Line 5.
- (5) **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:
- (i) Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required securities, as the case may be.
 - (ii) Payment by a customer in respect of any margin account transaction may be by:
 - (a) cash or other immediately available funds,
 - (b) applying the loan value of securities to be deposited,
 - (c) applying the excess loan value in the account or in a guarantor's account.
 - (iii) Each margin account of a customer, which has become undermargined, shall within 20 *business days* of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.
 - (iv) Advancing funds or delivering securities from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.
- (6) **Line 3(a)** - In the case of a *regular settlement date* transaction in the margin account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution*, the amount of margin to be provided, commencing on *regular settlement date*, shall be the margin deficiency at not less than prescribed rates, if any, that exists.
- Trade date margining: For *Dealer Members* determining margin deficiencies for clients on a trade date basis, (i) any amount of margin required to be provided under this subsection shall be determined using money balances and security positions as of trade date, and (ii) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.
- (7) **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:
- (i) Cash accounts
Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in note 8.
 - (ii) Delivery against payment (DAP)
Settlement of a purchase transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for delivery by the *Dealer Member* against payment in full by the customer shall be settled on the later of (a) settlement date or (b) the date on which the *Dealer Member* gives notice to the customer that the securities purchased are available for delivery.

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

(iii) Receipt against payment (RAP)

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

(iv) Payment

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

- (a) cash or other immediately available funds;
- (b) the application of the proceeds of the sale of the same or other securities held long in any cash account of the customer with the *Dealer Member* provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;
- (c) the transfer of funds from a margin account of the customer with the *Dealer Member* provided adequate margin is maintained in such account immediately before and after the transfer.

(v) Isolated transactions

A customer shall be permitted in an isolated instance to:

- (a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same security in any cash account of the customer with the *Dealer Member*;
- (b) transfer a transaction in a cash account to a margin account prior to payment in full; or
- (c) transfer a transaction in a DAP account to a margin account within 10 *business days* after settlement date.

(vi) Account restrictions

(a) Cash accounts

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

(b) DAP accounts

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

(vii) Transfer to margin account

The account restrictions in note 7(vi)(a) and (b) shall not apply to the accounts of a customer who (a) do not have a margin account with the *Dealer Member*, and (b) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the *Dealer Member* to one or more newly established margin accounts of the customer with the *Dealer Member*, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

(viii) Acceptable institutions and other

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

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

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

(i) Cash accounts

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

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

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

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

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

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

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

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

(ii) DAP and RAP accounts

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

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

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

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

(iii) Confirmations and commitment letters

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

(iv) Trade date margining

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

(9) Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account

Form 1, Part II – Schedule 4
Notes and instructions (Continued)

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)** - Client accounts shall be marked to market and margined daily using as a minimum the margin requirements of the Clearing House of the Futures Exchange on which the *futures contract* is traded or at the rate required by the *Dealer Member's* clearing broker, whichever is the greater.
- (11) **Line 3(d)** - The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short security positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.
- (12) **Line 4** - Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between a *Dealer Member* and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see note 3) or *regulated entity* (see Schedule 5)), the position shall be margined as follows, commencing on *regular settlement date*:

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

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

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

- (13) **Line 5** - *Free credit balances* in all accounts except RRSP and other similar accounts should be included. *Dealer Members* margining on a trade date basis will generally calculate *free credit balances* on a trade date basis and should report this trade date figure on Line 5. However, for those *Dealer Members* margining on a settlement date basis, their *free credit balances* will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 5. Note that a consistent basis of calculating *free credit balances* must be used from month to month.
- (14) **Line 5(a)** - For those *Dealer Members* reporting *free credit balances* on a settlement date basis on Line 5, report the *free credit balances* arising as a result of pending trades on this line.
- (15) **Line 7** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 8 are shown "net".
- (16) **Line 9(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Dealer Member* and the IA permitting the *Dealer Member* to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from *guarantees* relating to customers' accounts by Partners, *Directors*, and *Officers* of the *Dealer Member* (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the *Dealer Member*.

Form 1, Part II – Schedule 5

Dealer Member's name

Date

Analysis of brokers' and dealer' trading balances

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

Form 1, Part II – Schedule 5
Notes and instructions

- (1) This schedule is only to include ordinary security trading transactions. All security borrowing or lending transactions should be disclosed on Schedules 1 or 7.
- (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* 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 *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.
 - (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 ~~HROC~~ [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.

Form 1, Part II – Schedule 6

Dealer Member's name

Date

Current income taxes

C\$000's

Income tax 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)	..... E-37
6.	Less: Current installments	.....
7.	Other adjustments [give details if significant]	.....
8.	Total adjustment for current year's taxes	.....
9.	Total liability (asset) [add or subtract Line 8 from Line 4]	..... A-13, if asset A-56, if liability

Form 1, Part II – Schedule 6A

Dealer Member's name

Date

Tax recoveries

	<u>Reference</u>	<u>C\$000's</u>
A. Tax recovery for risk adjusted capital		
1. Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. 6, Line 5	-----
2. Commission and/or fees receivable (non-allowable assets) of \$ _____ multiplied by an effective corporate tax rate of _____%	A-21	-----
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-24	-----
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]		----- B-26
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 _____%	Sch. 9	-----
12. Tax recovery – Securities concentration charge [75% of lesser of Lines 10 and 11]		----- B-28
13. Total tax recovery <i>risk adjusted capital</i> [Line 3 plus Line 8 plus Line 12]		----- C-3
B. Tax recovery for early warning calculation:		
1. Income tax expense (recovery) [must be greater than 0, else N/A]	Sch. 6, Line 5	-----
2. Commission and/or fees receivable (allowable assets)	A-15	-----
3. Commission and/or fees receivable (non-allowable assets)	A-21	-----
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 6A

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.

Form 1, Part II – Schedule 7

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
1. Bank overdrafts	N/A	N/A	Nil
Loans payable:				
2. Acceptable institutions	N/A	.....	Nil
3. Acceptable counterparties	N/A	.....	.....
4. Regulated entities	N/A	.....	.....
5. Others	N/A	.....	.....
Securities loaned:				
6. Acceptable institutions	Nil
7. Acceptable counterparties
8. Regulated entities
9. Others
Repurchase agreements:				
10. Acceptable institutions	N/A	.....	Nil
11. Acceptable counterparties	N/A	.....	.....
12. Regulated entities	N/A	.....	.....
13. Others	N/A	.....	.....
14. Total [Sum of Lines 1 through 13]	<u> </u> A-51			<u> </u> B-14

Form 1, Part II – Schedule 7
Notes and instructions

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

“cash loan payable”	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to borrow cash and deliver securities as collateral to the counterparty.
“excess collateral deficiency”	(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 (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.
“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.

(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:

Form 1, Part II – Schedule 7
Notes and instructions (Continued)

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

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

(7) Securities loan arrangements

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

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

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
 - (I) the loaned securities must be held by the third party custodian agent and there must be no right to re-hypothecate the loaned securities,
 - (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian agent and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
 - (B) the third party custodian agent in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal borrower default, the loan collateral will be liquidated by the *Dealer Member* and proceeds used to purchase the loaned securities. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by *Dealer Member* to the third party custodian agent.

(ii) Additional written agreement requirements for certain agency securities loan arrangements where agent 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

Form 1, Part II – Schedule 7
Notes and instructions (Continued)

- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
- (I) the loaned securities must be held by the agent and there must be no right for the agent to re-hypothecate the loaned securities,
 - (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
 - (A) the *Dealer Member* separately from the third party custodian and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
 - (B) the third party custodian in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
 - (III) in the event of the underlying principal borrower default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the loan collateral will be liquidated by the *Dealer Member* and the resulting proceeds used to purchase the loaned securities by the *Dealer Member*. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by the *Dealer Member* to the agent.

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

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

- (a) where an agent is also the third party custodian and the requirements in 7(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in 7(ii) are not all met.

(iv) Margin requirements for securities loan arrangements

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

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
 - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
 - (II) 100% of the *market value* of the securities loaned to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
 - (I) for principal securities loan arrangements, the counterparty is the principal in the securities loan arrangement,
 - (II) for agency securities loan arrangements, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
 - (II) for agency securities loan arrangements, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal borrower,

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

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

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

Form 1, Part II – Schedule 7
Notes and instructions (Continued)

(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 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:
 - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and
 - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member’s* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

(iv) 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

Form 1, Part II – Schedule 7
Notes and instructions (Continued)

(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:

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

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

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

(b) Where a written agreement has been entered into that includes all of the required minimum terms in notes 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,

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

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

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

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

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

Form 1, Part II – Schedule 7
Notes and instructions (Continued)

- (11) **Lines 3, 4, 7 and 8** - In the case of a *cash loan payable* or a *securities loan arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day* it must be provided out of the *Dealer Member's* capital.
- (12) **Lines 11 and 12** - In the case of a repurchase transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities repurchased and the *market value* of the cash received, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (13) **Lines 5, 9 and 13** - In the case of a *cash loan payable* or a securities loan or a repurchase arrangement / transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (14) **Lines 2, 3 and 4** - In a *cash loan payable* transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash loan, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
- (15) **Lines 5, 9, and 13** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(ii) 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".

Form 1, Part II – Schedule 7A

Dealer Member's name

Date

Cash and securities borrowing and lending arrangements concentration charge

	<u>Reference</u>	<u>C\$000's</u>
1. <i>Market value</i> deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 1, Line 2	-----
2. <i>Market value</i> deficiency amount relating to loans receivable from <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 1, Line 3	-----
3. <i>Market value</i> deficiency amount relating to securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 1, Line 6	-----
4. <i>Market value</i> deficiency amount relating to securities borrowed from <i>regulated entities</i> , net of legal offsets and margin already provided	Sch. 1, Line 7	-----
5. <i>Market value</i> deficiency amount relating to loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 7, Line 3	-----
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, Line 4	-----
7. <i>Market value</i> deficiency amount relating to securities lent to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	Sch. 7, Line 7	-----
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. 7, Line 8	-----
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-21

Form 1, Part II – Schedule 9

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 9A) or a Debt Security Test methodology (Schedule 9B). The Schedule 9 summary sheet must include the largest ten issuer positions and precious metals positions reported on Schedules 9A and 9B, 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.

The notes and instructions to Schedule 9 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 9A and 9B provide more detail on the positions included for testing under each test. The notes and instructions to Schedule 9B 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 *Dealer Member* for loan value, and must be included in the issuer position and precious metal position.
- (4) For short positions reported on Schedule 9A, the loan value is the *market value* of the short position. For short positions reported on Schedule 9B, 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) *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.
- (ii) The amount reported must include uncovered stock positions in market-maker accounts.

Amount loaned

- (7) The client and *Dealer Member's* own positions reported are to be determined based on the combined client/*Dealer Member's* own long or short position that results in the largest amount loaned exposure.

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

- (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 *Dealer Member's* own position (if any).

- (ii) To calculate the combined amount loaned on the short position exposure reported on Schedule 9A, 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 *Dealer Member's* own position (if any).

Calculate the combined amount loaned on the short position exposure reported on Schedule 9B 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 *Dealer Member's risk adjusted capital* before securities concentration charge and minimum capital (Statement B, Line 7) as most recently calculated, the completion of the columns titled "Adjustments in arriving at Amount Loaned" (on Schedules 9A and 9B), "Risk-weighting adjustment factor %" (Schedule 9B), and "Risk-weighted amount loaned" (Schedule 9B) 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 9A and 9B.),
 - (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,
 - (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

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

(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:

Amount loaned issuer classification	Issuer classification or special application criteria	Amount loaned concentration threshold
(i) Related or “non-arm’s length” securities	Securities issued by: (a) the <i>Dealer Member</i> , or (b) a company meeting all of the following thresholds: <ul style="list-style-type: none"> • <i>Dealer Member</i> accounts are included in the consolidated financial statements • the assets and revenue of the <i>Dealer Member</i> 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 <i>Dealer Member</i> for the preceding fiscal year. 	One-third of the sum of the <i>Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 7), 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 value</i> calculation set out in Schedule 4, note 8(i)(a).	
(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 <i>Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 7), as most recently calculated.
(iv) Additional exposures	The following scenarios result in a reduced concentration threshold for any other issuer or precious metal position: (a) <u>Multiple violations</u> : If the <i>Dealer Member</i> has already incurred a concentration charge for an issuer position or precious metal position under notes 8(i), 8(ii), or 8(iii); or, (b) <u>Material exposures</u> : If the <i>Dealer Member</i> 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 <i>risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 7), as most recently calculated.	One-half of the sum of the <i>Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 7), as most recently calculated. Any additional exposures for issuer positions classified under 8(i) or 8(ii) are measured at one-third of the sum of the <i>Dealer Member’s risk adjusted capital</i> before securities concentration charge and minimum capital (Statement B, Line 7), as most recently calculated.

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

Form 1, Part II – Schedule 9
Notes and instructions (Continued)

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 9A and the largest three issuer positions originating from Schedule 9B, 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 9.
- (12) For Schedule 9A 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 9B 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 *Dealer Member* must report the over exposure situation to ~~HROC~~[the Corporation](#) on the date the over exposure first occurs.
- (ii) A measure of discretion is left with ~~HROC~~[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 9A
Notes and instructions

General Security Test

- (1) *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 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* 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* position into its 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*, the number of securities that represents 7.3% of the value of the *broad based index* position shall be reported as the constituent security position.)

**Form 1, Part II – Schedule 9B
Notes and instructions**

Debt Security Test

- (1) *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:

Exclusions from Schedule 9B			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Non-commercial <i>debt securities</i> with a normal margin rate of less than 10%, issued or guaranteed by the following: <ul style="list-style-type: none"> • 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 	Not applicable	Not applicable (N/A)
2.	Other non-commercial <i>debt securities</i> with a normal margin rate of 10% or less	A	
3.	Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following: <ul style="list-style-type: none"> • A Canadian financial institution qualifying as an <i>acceptable institution</i> • A foreign financial institution qualifying as an <i>acceptable institution</i> 	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, notes 5(i) and 6(i). The remaining net long (short) *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 *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 [HROC Corporation Investment Dealer and Partially Consolidated](#) Rules, supported by a written hedge agreement in a form acceptable to [HROC the Corporation](#).

Form 1, Part II – Schedule 9B
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 securities margined at 10% or less			
	Minimum designated rating organization rating	Adjustment factor	Multiple designated rating organization current credit ratings
Long term rating:			If only one current credit rating, that rating applies. If two current credit ratings, the lower rating applies. If more than two current credit ratings, refer to the highest two ratings and apply the lower rating.
1.	AAA	40%	
2.	AA to A	50%	
3.	BBB	60%	
4.	Below BBB or not rated	80%	
Short term 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 9, notes 8(i), 8(ii), 8(iii), 8(iv), 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:

1. calculate the weights for each applicable adjustment factor within the aggregate amount loaned exposure (Schedule 9B, 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.

Form 1, Part II – Schedule 10

Dealer Member's name

Date

Insurance

A. Financial Institution Bond (FIB) C clauses (a) to (e)

	<u>Reference</u>	<u>C\$000's</u>		
1. Coverage required for FIB				
(a) Client net equity:				
i) Dealer Member's own				
ii) Carrying brokers' introducing brokers				
Total			x 1%*	..... [see note 4]
(b) Total liquid assets	A-12			
Total other allowable assets	A-18			
Total			x 1%*	.....

The actual coverage required for each clause is the greater of (a) and (b), with a **M**inimum **R**equirement of \$500,000 (\$200,000 for a Type 1 *introducing broker*), and a maximum requirement of \$25,000,000.

*based on one half of one percent for Types 1 and 2 *introducing B*rokers

2. Coverage maintained per FIB	.....	[see notes 5 and 9]
3. Excess/(deficiency) in coverage	=====	[see note 6]
4. Amount deductible under FIB (if any)	=====	[see note 7]

B-16

B. Registered mail insurance

1. Coverage per mail policy	=====	[see note 8]
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C. FIB and registered mail policy information [see note 9]

<u>Insurance company</u>	<u>Name of the insured</u>	<u>FIB/registered mail</u>	<u>Expiry date</u>	<u>Coverage</u>	<u>Type of aggregate limit</u>	<u>Provision for full reinstatement</u>	<u>Premium</u>
.....
.....
.....
.....

D. Losses and claims [see note 10]

<u>Date of loss</u>	<u>Date of discovery</u>	<u>Amount of loss</u>	<u>Deductible applying to loss</u>	<u>Description</u>	<u>Claim made?</u>	<u>Settlement</u>	<u>Date settled</u>
.....
.....
.....
.....
.....

Form 1, Part II – Schedule 10

Notes and instructions

- (1) *Dealer Members* must have and maintain insurance against the types of loss and with at least the minimum amount of coverage as prescribed in the ~~HROC Rules~~[Corporation requirements](#) and the rules of the ~~Canadian~~ Investor Protection Fund.
- (2) Schedule 10 must be completed at the audit date and monthly as part of the monthly financial report.
- (3) The following term(s) has the meaning set out when used in this schedule:

“Other acceptable property”	London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in section 5430.
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- (4) Net equity for each client is the total value of cash, securities, and *other acceptable property* owed to the client by the *Dealer Member* less the value of cash, securities, and *other acceptable property* owed by the client to the *Dealer Member*. In determining net equity, accounts of a client such as cash, margin, short sale, *options*, *futures contracts*, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, joint accounts are not combined with other accounts and are treated as separate accounts.

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

For Schedule 10, *guarantee/guarantor* agreements should not be considered in the calculation of net equity.

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

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

For Financial Institution Bonds containing an “aggregate limit” coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.
- (6) The Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) document in Form 1 contains a question pertaining to the adequacy of insurance coverage. The Auditors’ Report requires the auditor to state that the question has been fairly answered. Refer to subsection 4461(1) if the *Dealer Member* has insufficient insurance coverage.
- (7) A Financial Institution Bond maintained pursuant to the rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the *Dealer Member’s* margin requirement is increased by the amount of the deductible.
- (8) Unless specifically exempted within the ~~HROC Rules~~[Corporation requirements](#), every *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail.
- (9) The aggregate value of securities in transit in the custody of any *employee* or any *person* acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 10, Line 2).
- (10) List all Financial Institution Bond and registered mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.
- (11) List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the “Amount of loss” column if the amount of the loss is estimated or unknown as at the reporting date.

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

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

Form 1, Part II – Schedule 11

Dealer Member's name

Date

Unhedged foreign currencies calculation

Summary

C\$000's

A. Total foreign exchange margin requirement

B-17

B. 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 11A must be completed)

Margin group

Required margin

.....
.....
.....
.....
.....

Subtotal

All other foreign exchange margin requirement

Total

Form 1, Part II – Schedule 11A

Dealer Member's name

Date

Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000

Foreign currency: _____

Foreign currency group: _____

	Amount	Weighted value	Margin required
Balance sheet items and forward/future commitments less than or equal to two years to maturity			
1. Total <i>monetary assets</i>
2. Total long forward/ <i>futures contract</i> positions
3. Total <i>monetary liabilities</i>
4. Total (short) forward/ <i>futures contract</i> positions
5. Net long (short) foreign exchange positions
6. Net weighted value	=====	=====
7. Net weighted value multiplied by term risk for Group ___ of ___%			=====
Balance sheet items and forward/future commitments greater than two years to maturity			
8. Total <i>monetary assets</i>
9. Total long forward/ <i>futures contract</i> positions
10. Total <i>monetary liabilities</i>
11. Total (short) forward/ <i>futures contract</i> 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 ___%			=====
Foreign 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			=====
Foreign exchange concentration charge			
20. Total foreign exchange margin [Line 19] in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1]		
Total foreign exchange margin for (currency):			=====

Sch. 11

Form 1, Part II – Schedules 11 and 11A
Notes and instructions

- (1) The purpose of this schedule is to measure the balance sheet exposure a *Dealer Member* has to foreign currency risk. Schedule 11A must be completed for each foreign currency that has margin requirement greater than or equal to \$5,000.
- (2) The following is a summary of the quantitative and qualitative criteria for currency groups 1-4. *Dealer Members* should refer to ~~HROC~~[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 ~~HROC Rules~~[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 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 ¹	greater of: (i) 3.00% and (ii) spot risk surcharge rate ¹	greater of: (i) 10.00% and (ii) spot risk surcharge rate ¹	25.00%
Term risk margin rate ²	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 ¹	5.00%	10.00%	20.00%	50.00%

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

² 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 11A for purposes of the foreign exchange margin calculation. The reason underlying this proviso is that a *Dealer Member* should not have to

Form 1, Part II – Schedules 11 and 11A
Notes and instructions (Continued)

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 [HROCthe 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 11A.
- (11) **Line 20** - The foreign exchange concentration charge applies only to currency groups 2 to 4.

Form 1, Part II – Schedule 12

Dealer Member's name

Date

Margin on futures concentrations and deposits

Margin required

C\$000's

- | | |
|--|-------|
| 1. Total open <i>futures contract</i> and short <i>futures contract option</i> positions | ..... |
| 2. Concentration in individual accounts | ..... |
| 3. Concentration in individual open <i>futures contracts</i> and short <i>futures contract options</i> | ..... |
| 4. Deposits with <i>correspondent brokers</i> | ..... |
| 5. Total [Sum of Lines 1 through 4] | ..... |

=====
B-18
=====

Form 1, Part II – Schedule 12
Notes and instructions

(1) The purpose of Schedule 12 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 <i>futures contracts</i> or <i>futures contract options</i> 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 <i>futures contract</i> is entered into.
“long futures contract position”	Includes <i>futures contracts</i> underlying short put options on <i>futures contracts</i> .
“short futures contract position”	Includes <i>futures contracts</i> underlying short call options on <i>futures contracts</i> .

(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

Form 1, Part II – Schedule 12
Notes and instructions (Continued)

of the aggregate of those *maintenance margin requirements* over 15% 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 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 the

Form 1, Part II – Schedule 12
Notes and instructions (Continued)

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.

- (ii) 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.

Form 1, Part II – Schedule 13

Dealer Member's name

Date

Early warning tests – Level 1

C\$000's

A. Liquidity test

Is *early warning reserve* [Statement C, Line 12] less than 0?

Yes/No

B. Capital test

1. *Risk adjusted capital* [Statement B, Line 29]

2. *Total margin required* [Statement B, Line 24] multiplied by 5%

Is Line 1 less than Line 2?

Yes/No

C. Profitability test #1

	Months	Profit or loss for 6 months ending with current month C\$000's [see note 2]	Profit or loss for 6 months ending with preceding month C\$000's [see note 2]
	_____	_____	_____
1. Current month	_____	_____	_____
2. Preceding month	_____	_____	_____
3. 3rd month	_____	_____	_____
4. 4th month	_____	_____	_____
5. 5th month	_____	_____	_____
6. 6th month	_____	_____	_____
7. 7th month	_____	_____	_____
8. Total [see note 3]		_____	_____
9. Average multiplied by -1		_____	_____
10A. <i>Risk adjusted capital</i> [at Form 1 date]		_____	
10B. <i>Risk adjusted capital</i> [at preceding month end]			_____
11A. Line 10A divided by Line 9		_____	
11B. Line 10B divided by Line 9			_____

Are both of the following conditions true:

1. Line 11A is greater than or equal to 3 but less than 6, and
2. Line 11B less than 6?

Yes/No

D. Profitability test #2

1. Loss for current month [see notes 2 and 4] multiplied by -6

2. *Risk adjusted capital* [at Form 1 date]

Is Line 2 less than Line 1?

Yes/No

Form 1, Part II – Schedule 13A

Dealer Member's name

Date

Early warning tests – Level 2

C\$000's

A. Liquidity test

Is *early warning excess* [Statement C, Line 10] less than 0?

Yes/No

B. Capital test

1. *Risk adjusted capital* [Statement B, Line 29]

2. *Total margin required* [Statement B, Line 24] multiplied by 2%

Is Line 1 less than Line 2?

Yes/No

C. Profitability test #1

Is Schedule 13, Section C, Line 11A less than 3 and
Schedule 13, Section C, Line 11B less than 6?

Yes/No

D. Profitability test #2

1. Loss for current month [see notes 2 and 4] multiplied by -3

2. *Risk adjusted capital* [at Form 1 date]

Is Line 2 less than Line 1?

Yes/No

E. Profitability test #3

Profit or loss for 3
months ending with
current month

C\$000's

[see note 2]

Months

1. Current month

2. Preceding month

3. 3rd month

4. Total [see note 5]

5. *Risk adjusted capital* [at Form 1 date]

Is loss on Line 4 greater than Line 5?

Yes/No

F. Frequency penalty

1. Has the *Dealer Member* triggered early warning at least 3 times in the past 6 months or
is *risk adjusted capital* less than 0?

Yes/No

2. Has the *Dealer Member* triggered liquidity or capital tests on Schedule 13?

.....
Yes/No

3. Has the *Dealer Member* triggered profitability tests on Schedule 13?

.....
Yes/No

4. Are Lines 2 and 3 both yes?

Yes/No

Form 1, Part II – Schedules 13 and 13A
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.

If the *Dealer Member* is currently capital deficient (i.e. *risk adjusted capital* is negative), only Line 1 of Part F in Schedule 13A must be completed. Schedule 13 and the remainder of Schedule 13A do not need to be completed.

- (2) 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 E, Line 31 – 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 webfiling system (SIRFF).
- (3) 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 #1.
- (4) If the amount is a profit, no further calculation is required under Schedule 13, Section D - Profitability test #2 and Schedule 13A, Section D - Profitability test #2.
- (5) If the total is a profit, no further calculation is required under Schedule 13A, Section E - Profitability test #3.

Form 1, Part II – Schedule 14

Dealer Member's name

Date

Provider of capital concentration charge

Name of provider of capital

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

Form 1, Part II – Schedule 14 (Continued)

C. Calculation of financial statement capital provided by the provider of capital		
1. Regulatory financial statement capital provided by the provider of capital (including pro-rata share of reserves and retained earnings)		_____
D. Net allowable assets		
1. Net allowable assets		_____
E. Exposure 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. Exposure test #2 - Overall cap on cash deposits and undersecured loans and 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. Regulatory financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the provider of capital [Minimum of Section F, Line 1 and Section F, Line 4]		_____
Less:		
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 provider of capital [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]		_____

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.

(2) The following terms have the meanings set out when used in this schedule:

“provider of capital”	<i>An individual or entity and its affiliates that provides capital to a 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 of capital</i> .

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

- (i) 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.
- (ii) 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) 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.
- (iv) 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) 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) 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) 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.
- (viii) 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.
- (ix) 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*.

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

- (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 ~~HROC~~[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.

Form 1, Part II – Schedule 15

Dealer Member's name

Date

Supplementary information

(Figures not subject to audit)

C\$000's

A. Segregation

1. Aggregate *market value* of securities required to be recalled from call loans

B. Number of employees

1. Number of *employees* - registered

2. Number of *employees* - other

C. Number of trades executed during the month

1. Bonds

2. Money market

3. Equities – Listed Canadian

4. Equities – Foreign

5. *Options*

6. *Futures contracts*

7. Mutual funds

8. New issues

9. Other

Total

Notes and instructions:

(1) Trade tickets, not fills, for all markets must be counted.