IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

Please distribute internally to:
Credit
Institutional
Internal Audit
Legal and Compliance
Operations
Regulatory Accounting
Retail
Senior Management
Trading Desk

Contact:
Jamie Bulnes
Director, Member Regulation Policy
(416) 943-6928
jbulnes@iiroc.ca

Answerd Ramcharan
Specialist, Member Regulation Policy
(416) 943-5850
aramcharan@iiroc.ca

12-0275
September 17, 2012

IIROC Staff Consultation - Concept Paper on the Feasibility of Portfolio Margining

IIROC staff are conducting a review of portfolio-based margining to assess whether this margining methodology is a feasible alternative for determining Dealer Member regulatory capital levels and margin lending limits for certain sophisticated clients.

At the conclusion of the review, IIROC staff will assess the results and will recommend whether or to not pursue this margining methodology. If recommended, staff will develop formal rule proposals.

As part of the review, we are consulting with Dealer Members, Marketplace Members and other interested stakeholders. We are publishing the attached Concept Paper (the “Paper”) for public comment as part of this consultative exercise. The Paper provides more information on the scope of the review, including background on the current margining methodology for determining Dealer Member regulatory capital levels and margin lending limits for all clients.

We invite comments on all aspects of the Paper. In particular, we wish to solicit responses to the questions posed in the last section of the Paper, and repeated in Appendix 1 to the Paper as they relate to the various categories of possible users of the portfolio-based margining methodology. Comments should be made in writing and delivered by December 17, 2012 (90 days from the publication of this Notice).

Comments on the Paper may be delivered by mail, fax or e-mail by December 17, 2012 to:

Answerd Ramcharan
Specialist, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario, M5H3T9
Fax: (416) 943-6760
Email: aramcharan@iiroc.ca

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IIROC website (**www.iiroc.ca** under the heading “IIROC Rulebook - Dealer Member Rules – Proposed Policy”).

Questions may be referred to any of the following persons:

Jamie Bulnes
Director, Member Regulation Policy
(416) 943-6928
jbulnes@iiroc.ca

Answerd Ramcharan
Specialist, Member Regulation Policy
(416) 943-5850
aramcharan@iiroc.ca

IIROC Concept Paper

on the

Feasibility of Portfolio Margining

September 2012

Concept Paper on the Feasibility of Portfolio Margining

Table of Contents

Introduction **1**

Purpose of consultation 1

Consultation questions 1

Framework for the review 1

Reason for considering portfolio-based margining 1

Content of the concept paper 2

Analysis and discussion **3**

A. Analysis of current requirements 3

General margin requirements 3

Margin requirements for proprietary inventory accounts 3

Margin requirements for "qualifying non-individual" accounts 4

"Other non-individual client" and individual client account margin requirements 4

B. Margining approaches studied and preliminary findings/recommendations 5

Study of Dealer Member exposure to incremental risks within "qualifying non-individual client" margin accounts 5

Portfolio margining feasibility study 6

IIROC staff's proposed framework for implementing portfolio margining 8

C. IIROC resource requirements for the introduction of a portfolio-based margining methodology 9

Questions to stakeholders **9**

Supporting document - Appendix 1

IIROC staff's proposed framework for implementing portfolio margining and questions to stakeholders 12

Introduction:

Purpose of consultation

IIROC staff are conducting a review of portfolio-based margining to assess whether this margining methodology is a feasible alternative for determining Dealer Member regulatory capital levels and margin lending limits for certain sophisticated clients. As part of the review, we are consulting with Dealer Members, Marketplace Members and other interested stakeholders. We are publishing the Concept Paper (the “Paper”) for public comment as part of this consultative exercise. If this margining methodology is determined to be appropriate at the conclusion of the review, IIROC staff will develop formal rule proposals, which would go through IIROC’s normal rule development and approval process.

Consultation questions

The Paper contains a series of questions that are designed to solicit input from stakeholders as to whether a portfolio-based margining methodology should be permitted and, if so, for which classes of Dealer Members, classes of Dealer Member clients, and classes of investment products and markets. This input will assist us in determining whether or not this margining methodology should be pursued.

Framework for the review

In assessing whether portfolio-based margining is a feasible alternative for determining Dealer Member regulatory capital levels and margin lending limits for certain sophisticated clients, we will be doing so within the framework of our mandate, which is to set and enforce high quality regulatory industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.

Reason for considering portfolio-based margining

The IIROC staff review was initiated to consider the feasibility of adopting a portfolio-based margining methodology.

Portfolio-based margining is a margining system that bases capital or margin requirements on the expected market value losses of an overall portfolio of securities in an account, rather than on the expected market value loss of each individual security (position) in the account. All margining systems, including portfolio-based margining, require Dealer Members to set aside collateral for inventory positions, and clients of Dealer Members to set aside collateral for client positions purchased with borrowed funds from a Dealer Member (i.e., a margin loan). Doing so ensures that there are adequate funds in the account to cover any market losses, arising from changes in market values, in case such losses cannot be funded by the Dealer Member or the client, as the case may be. Many portfolio-based margining approaches use historical price volatility and/or correlation information to

calculate the expected loss of a portfolio of securities. This expected loss, which is calculated within a certain statistical confidence level, is used to determine margin requirements. Other assumptions, including how long it will take to liquidate the securities, or how much certain factors that affect securities prices change, may also be included in the calculation.

Content of the Concept Paper

To assist us in our review of portfolio-based margining for regulatory purposes, IIROC staff commissioned the consulting firm *Risk Resources LLC* to perform a detailed feasibility study of portfolio-based margining in the context of the Canadian markets and participants therein (the "Study"). The Study, which was completed and delivered to IIROC in February 2012 and contains the consultant's findings and recommendations, has been taken into account in the preparation of this Paper. A summary of the Study is publicly available on our website (www.iiroc.ca) in the News & Publications section under Studies and Reports. In the course of studying the feasibility of portfolio-based margining, staff also took into consideration the work we performed to date on the issue of covering the incremental risks of margin lending to certain clients.

This Concept Paper contains:

- a summary of IIROC's current margin requirements that apply to investment product positions held at Dealer Members;
- a summary of the work performed to date by IIROC staff to deal with the coverage of incremental risks associated with margin lending to "qualifying non-individual clients"[1];
- a summary of the Study's findings and recommendations relating to the feasibility of implementing a portfolio margining regime for determining regulatory margin and capital requirements for IIROC Dealer Members and their clients for the Canadian capital markets;
- a series of questions intended to solicit the input of Dealer Members, Marketplace Members, and other stakeholders as to whether a portfolio-based margining methodology should be permitted for use and, if so, for which classes of Dealer Members, classes of Dealer Member clients, and classes of investment products and markets; and
- IIROC staff's proposed framework for implementing portfolio-based margining, if it is found to be feasible.

[1] For the purposes of this Concept Paper, "qualifying non-individual client" means a non-individual client that qualifies as an "acceptable institution", "acceptable counterparty" or "regulated entity", all of which are categories of non-individual clients defined within IIROC's Dealer Member Form 1.

Analysis and discussion:

A. Analysis of current requirements

General margin requirements

The current IIROC margin requirements stipulate that for investment product positions held in:

- a Dealer Member proprietary inventory account, margin must generally be provided on a position-by-position basis and calculated as a set percentage of the market value of each account position or underlying security to each account position.
- an account of a "qualifying non-individual client" who:
  - qualifies as an "acceptable institution", no margin need be provided unless one or more account trades remain unconfirmed; or
  - qualifies as either an "acceptable counterparty" or a "regulated entity", no margin need be provided unless there is an account equity deficiency and/or one or more account trades remain unconfirmed;
- an account of an "other non-individual client"[2] or individual client, margin must generally be provided on a position-by-position basis and calculated as a set percentage of the market value of each account position or underlying security to each account position.

Margin requirements for proprietary inventory accounts

By the nature of the account type, Dealer Members assume market risk when they hold positions in a proprietary inventory account. In order to mitigate this market risk, the existing margin requirements for proprietary inventory account positions require that margin be provided on a position-by-position basis and calculated as a set percentage of the market value of each account position or underlying security to each account position (with the exception of reduced margin requirements available for qualifying index product positions and for certain strategy-based position offset pairings and combinations). Consequently, the risk reduction achieved through portfolio diversification is not significantly or consistently reflected in the current margin requirements that apply to proprietary inventory account positions. In light of this limitation, there is a need to assess whether:

- it is feasible to give Dealer Members the option of using a portfolio-based methodology for the purposes of margining proprietary inventory account positions; and

---

[2] For the purposes of this memo, "other non-individual client" means a non-individual client that does not qualify as an "acceptable institution" (AI), "acceptable counterparty" (AC) or "regulated entity" (RE), all of which are categories of non-individual clients defined within IIROC Dealer Member Form 1. Most "other non-individual clients" are corporations, trusts and limited partnerships that fail to meet the applicable minimum net worth requirement to qualify as an "acceptable counterparty" for credit risk assessment purposes.

- if so, whether the use of a portfolio-based methodology should only be made available to IIROC Dealer Members that maintain minimum capital levels in excess of a set amount (e.g. minimum capital in excess of $10 million or some other amount determined to be appropriate).

Margin requirements for "qualifying non-individual client" accounts

Historically, the vast majority of "qualifying non-individual client" accounts have been "delivery against payment" and "receipt against payment" accounts (i.e., DAP/RAP accounts). In these accounts, securities are either delivered out, in the case of a purchase, or received in, in the case of a sale, on the settlement date of each trade. As a result, there are no security positions held, post-settlement date, in the account. The risks associated with DAP/RAP accounts are therefore, almost exclusively related to the potential of one or more trades failing to settle.

Given that the vast majority of "qualifying non-individual client" accounts have historically been DAP/RAP accounts, the current margin requirements applicable to "qualifying non-individual client" accounts focus on mitigating the risks of trade settlement failure. As a result, under the current margin rules a margin requirement for a "qualifying non-individual client" account generally only arises where:

- a trade pending settlement is not confirmed within a reasonable period of time after the trade by the counterparty; and/or
- the current net market value of the trades pending settlement:
    - is less than the net trade value, in the case of net account purchases; and/or
    - is greater that the net trade value, in the case of net account sales.

Recently, there has been an increase in the number of margin accounts opened by "qualifying non-individual clients". While neither: (i) the number of these accounts; nor (ii) the dollar amounts of market risk related exposures introduced to Dealer Members by these accounts is yet material, this trend gives rise to the need to assess:

- whether the current "settlement failure risk"-based margin requirements for "qualifying non-individual client" accounts are still adequate; and
- whether more stringent margin requirements for margin accounts held by "qualifying non-individual client" accounts, such as a position-by-position percentage-based methodology or a portfolio-based methodology, should be introduced.

"Other non-individual client" and individual client account margin requirements

The vast majority of accounts held by "other non-individual clients" and individual clients are cash and margin accounts. Two features of these account types are:

- the holding of account positions for clients; and

- the financing[3] of client holdings through the extension of margin loans.

Where margin loans are extended to an "other non-individual client" or an individual client, the current margin rules assume that the only assets available to secure repayment of the loan are assets held in the client account. Consequently, the risk to the Dealer Member associated with margin lending to an "other non-individual client" or an individual client is market risk. This conclusion is based on the fact that a Dealer Member's ability to recover the amount of a margin loan is entirely dependent on the Dealer Member's ability to liquidate the margin loan collateral provided by the client. As a result, in an account held by an "other non-individual client" or individual client, margin must generally be provided on a position-by-position basis and calculated as a set percentage of the market value of each account position or underlying security to each account position.

As is the case with the existing margin requirements for proprietary inventory account positions, the risk reductions achieved through portfolio diversification are not significantly or consistently reflected in the current margin requirements that apply to "other non-individual client" and individual client account positions. There is therefore a need to assess whether:

- it is feasible to give these clients the option of using a portfolio-based methodology for the purposes of calculating the margin on their account positions; and
- if so, whether the use of a portfolio-based methodology should only be made available to clients with a certain account size (e.g. $5 million in account assets) and a certain sophistication level.

B. Margining approaches studied and preliminary findings/recommendations

Study of Dealer Member exposure to incremental risks within "qualifying non-individual client" margin accounts

In early 2011, in response to field examination findings that showed that there was an increase in margin lending to "qualifying non-individual clients", IIROC staff studied Dealer Member margin lending practices within accounts held by these clients. The study showed that while there were an increasing number of margin accounts being opened for these types of clients, the incremental exposures[4] assumed by IIROC Dealer Members were still immaterial in relation to the risk adjusted capital levels being maintained by the Dealer Members engaging in these activities.

Regardless, because of the incremental exposures associated with margin lending, IIROC staff concluded that there was a need to establish more stringent requirements for margin lending to "qualifying non-individual clients". Independent of its review of portfolio margining, IIROC staff initiated consultations with advisory committees regarding alternative ways of addressing the issue of incremental exposures. These consultations indicated that there was a general

[3] In the case of cash accounts, financing is only permitted to be extended on a short-term basis.

[4] "Incremental exposures" refers to market risk exposures being assumed by the Dealer Member over and above any settlement risk exposures already covered by the current margin requirements.

acceptance that the incremental exposures could be addressed by requiring "qualifying non-individual clients" to provide 50% of the margin that would be otherwise applicable, if the account was held by an "other non-individual client" or an individual client.

Portfolio margining feasibility study

In mid-2011, the consulting firm Risk Resources LLC was hired to perform a study of the feasibility of using a portfolio-based methodology to calculate the appropriate margin on:

- Dealer Member proprietary account position portfolios,
- "qualifying non-individual client" account position portfolios; and
- certain individual and other non-individual account position portfolios.

The final report, summarizing the results of the consultant's study, was completed and submitted to IIROC in February 2012. A summary of the consultant's report is publicly available on our website (www.iiiroc.ca) in the News & Publications section under Studies and Reports. The consultant's key findings and recommendations are as follows:

- IIROC should move forward with a project to adopt a portfolio-based margining methodology for regulatory purposes in order to:
  - achieve a better match between funding, collateral and risks in the Canadian market-place;
  - as a result of the foregoing, to reduce both the frequency and impacts of systemic risk events;
  - keep pace and consistency with the risk control developments in the other major financial markets of the world;
  - enable investors and custodians to use their finite resources to make more efficient risk control decisions;
  - ensure that the Canadian markets do not suffer a competitive disadvantage, resulting from its failure to operate its markets in a manner that reflects the plurality of risk control policies across the global markets; and
  - meet the demands of core constituents, including banks, exchanges and their clients – all of whom, to the best of our understanding, believe that the implementation of portfolio margining would be a positive step for the Canadian capital markets.
- the capital usage benefits of using a portfolio-based methodology are highly dependent on its acceptance by each Dealer Member's funding provider(s).
  For example, if:
  - a portfolio-based methodology results in an average margin requirement for the account portfolio of 20%, resulting in a collateral loan value of 80%; and

    - a position-by-position percentage-based methodology results in an average margin requirement for the account portfolio of 30%, resulting in a collateral loan value of 70%; but
    - a bank is only willing to fund 70% of the market value of account portfolio

  there will be no benefit to the capital of the firm as the firm would have to fund any margin loan amount that exceeds what the funding provider (in this case the bank) is willing to fund out of its own capital

- any portfolio-based methodology approved for use by IIROC should include sufficient, but not excessive cushion and base-rate parameters that:
    - ensure appropriate coverage across all foreseeable market conditions;
    - provide coverage in excess of that required for normal market conditions; and
    - minimize the likelihood of having to significantly increase margin rates in response to a significant market fluctuation event, thereby minimizing the likelihood of pro-cyclical margin requirements
- IIROC should conduct beta testing with a limited number of Dealer Members prior to developing rule amendment proposals;
- any rule amendments that would allow the use of portfolio margining should be implemented in stages, with the initial stage limited to a select set of Dealer Members and clients applying portfolio margining to a select set of financial instruments;
- the use of a portfolio-based methodology should be:
    - available as an option for the margining of proprietary inventory accounts of Dealer Members with capital or net equity in excess of $10 million[5];
    - mandatory for the margining of "qualifying non-individual client" accounts to ensure that the minimum margin requirements for such accounts address the incremental risks associated with margin lending; and
    - available as an option for the margining of "other non-individual client" and individual client accounts with liquid net worth in excess of $5 million
- the use of a portfolio-based methodology should be made available for portfolio holdings of:
    - large cap, broad-based index products including index baskets, units, exchange traded funds, options contracts and futures contracts
      [scan range: -8% to +6%]
    - medium and small cap, broad-based index products including index baskets, units, exchange traded funds, options contracts and futures contracts

[5] Approximately 60 IIROC Dealer Members would have the option of using a portfolio-based margining methodology if IIROC set a minimum risk adjusted capital eligibility requirement of $10 million.

[scan range: -10% to +10%]

- o narrow-based index products including index baskets, units, exchange traded funds, options contracts and futures contracts
  [scan range: -15% to +15%]
- o stock and related derivatives including stock futures contracts and stock options
  [scan range: -15% to +15%]
- o Canada and United States government bonds
  [scan ranges: from -1% to +1% for short-term debt to -6% to +6% for long- term debt with scan ranges in between these percentages for mid-term debt]

IIROC staff's proposed framework for implementing portfolio margining

IIROC staff's proposed framework for implementing portfolio margining for Dealer Member inventory positions and qualifying client positions is summarized below and is outlined in the form of a table in Appendix 1.

For Dealer Member inventory positions, the portfolio-based methodology would be limited to:

- the optional use by Dealer Members with minimum capital of $10 million; and
- where the portfolio-based methodology is used, it would be limited to certain classes of investment products on certain markets.

For qualifying client positions, the portfolio-based methodology would be limited to:

- the optional use of a portfolio-based methodology available to Dealer Members with a minimum capital of $10 million, otherwise a position-based methodology at 50% of the normal margin rate[6] must be used; and
- where the portfolio-based methodology is used, it would be limited to certain classes of investment products on certain markets.

For both Dealer Member inventory positions and qualifying client positions, the optional use of the portfolio-based methodology would be implemented in stages.

In terms of the leverage contemplated under the portfolio-based methodology, IIROC staff does not anticipate an inappropriate or disproportionate increase in the amount of leverage relative to existing margin requirements. For example, in the case of an equities-only portfolio, the portfolio-based margin methodology would result in a margin rate of 15% or greater, whereas the existing margin rates for listed equities are as low as 25% for inventory positions and 30% for customer positions.

---

[6] The position-based methodology at 50% of the normal margin rate is not an existing requirement. It would be introduced as a rule amendment along with any portfolio margining rule proposal.

C. IIROC resource requirements for the introduction of a portfolio-based margining methodology

The final Risk Resources LLC report also discusses in general terms the resources that IIROC would need to dedicate if a portfolio-based margining methodology was introduced. While the exact dollar cost of the resource requirements is not known, the bulk of the requirements would relate to:

- the need for additional staff expertise dedicated to analyzing the margin rate data we receive to ensure Dealer Members are properly applying IIROC's prescribed portfolio-based margining methodology; and
- the initial and ongoing training of the appropriate IIROC staff to ensure that they are familiar with portfolio-based margining methodologies and equipped to identify possible internal control and computational issues (that would be referred to the dedicated analysts for further analysis).

Questions to stakeholders:

To assist IIROC in determining the appropriate "next steps" in this process, IIROC staff are asking stakeholders to consider the following questions:

1. Should the use of a portfolio-based margining methodology be permitted in determining Dealer Member regulatory capital levels and margin lending limits for certain clients?
2. If the answer to question 1 above is "yes", then:

   a) Dealer Member inventory positions

   Should the methodology be available for use in the margining of proprietary inventory accounts only by Dealer Members that maintain a set minimum capital amount? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members? Should a Dealer Member have to satisfy certain conditions, in addition to a minimum capital level, to be eligible to use a portfolio-based margining methodology? If so, what additional conditions would be appropriate?

   b) "Qualifying non-individual client" accounts - AI, AC and RE client positions

   Should the use of this methodology be made mandatory for the margining of "qualifying non-individual client" accounts (i.e., AI, AC and RE client accounts) by all Dealer Members, or should all Dealer Members be given the option of margining these accounts using either a portfolio-based margining methodology or a position-by-position percentage-based methodology? If the use of a portfolio-based margining methodology for the margining of these client accounts was made optional for all qualifying Dealer Members, would these Dealer Members really have a choice or would they feel compelled to allow the use a portfolio-based margining methodology for these clients in order to remain competitive?

Should the portfolio-based margining methodology be available for use for the margining of these accounts only by Dealer Members that maintain a set minimum capital amount? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members? Should Dealer Members have to satisfy other conditions, in addition to a minimum capital requirement? If so, what should those other conditions be? Should there be an overall leverage limit compared to a Dealer Member's capital on the amount loaned to these clients under this methodology? If so, what should the leverage limit be?

Should the Dealer Member be required to assess whether the portfolio-based methodology is suitable for their "qualifying non-individual clients"? Should a "qualifying non-individual client" be required to maintain a set account asset value in order to be eligible for the portfolio-based methodology? If so, what should that account asset value be? Should the "qualifying non-individual client" account have to satisfy other conditions to be eligible to use the portfolio-based methodology? If yes, what should they be?

c) Other client positions

Should the portfolio-based margining methodology be available for use in the margining of certain "other non-individual client" and individual client accounts? If so, should the Dealer Member be required to assess whether use of this margining approach is suitable for the client? Should the client be required to maintain a set account asset level to be eligible for this margining approach? If so, what should that account asset value be? Should a client account have to satisfy other conditions to be eligible to use a portfolio-based margining methodology? If so, what additional conditions?

Should the portfolio-based margining methodology be available for use for the margining of these accounts only by Dealer Members that maintain a set minimum capital amount? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members? Should Dealer Members have to satisfy other conditions, in addition to a minimum capital requirement? If so, what should those other conditions be? Should there be an overall leverage limit compared to a Dealer Member's capital on the amount loaned to these clients under this methodology? If so, what should the leverage limit be?

If the use of a portfolio-based margining methodology for the margining of these client accounts was made optional for all qualifying Dealer Members, would these Dealer Members really have a choice or would they feel compelled to allow the use a portfolio-based margining methodology for these clients in order to remain competitive?

d) Investment products and markets

Should certain classes of investment products or products traded on certain markets be ineligible for portfolio-based margining due to liquidity risk concerns? Should

compensating risk controls be considered as an alternative to excluding certain investment products that have liquidity risk concerns, and if so, what should those compensating risk controls be and what products should they apply to? For products in "qualifying non-individual client" accounts that are ineligible for portfolio margining due to liquidity concerns, should these positions be subject to position-based margining and specific offset-based margining, or should another margining methodology apply to them? If so, what should that margining methodology be?

These questions are also categorized according to the various possible users of the portfolio-based margining methodology, along with the applicable current margin treatment and proposed framework, in the table enclosed as Appendix 1.

Supporting Document - Appendix:

Appendix 1 - IIROC staff's proposed framework for implementing portfolio margining and questions to stakeholders

Appendix 1

IIROC staff's proposed framework for implementing portfolio margining

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
1. Dealer Member	For inventory positions • mandatory use of position-based methodology • Dealer Member's minimum capital is $200,000 except for a Type 1 introducing broker, which is $75,000 • Dealer Member's risk adjusted capital must not be less than $0	For inventory positions • optional use of portfolio-based methodology available to Dealer Members with a minimum capital of $10 million • portfolio-based methodology limited to certain classes of investment products on certain markets • optional use of portfolio-based methodology to be implemented in stages	*Scope of users* *(i) Should Dealer Members be given the choice of using the portfolio-based methodology for their inventory positions?* *(ii) Should Dealer Members have to meet a minimum capital requirement before they may use the portfolio-based methodology for their inventory positions? If yes, what should the minimum capital requirement be? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members?* *(iii) Should Dealer Members have to satisfy other conditions, in addition to a minimum capital requirement? If yes, what should those other conditions be?* *Scope of products* *(iv) Should the portfolio-based methodology be limited to certain*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			classes of investment products on certain markets? If so, what investment products and markets should be excluded and should they be excluded because of liquidity risk concerns? *(v) Should compensating risk controls be considered as an alternative to excluding certain investment products that have liquidity risk concerns and if so, what should those compensating risk controls be and what products should they apply to?*
2. Client			
(a) Acceptable Institution (AI), "qualifying non-individual client"	For AI client margined positions • not subject to mandatory position-based methodology; Dealer Members may deal with AI clients on a unsecured basis without capital penalty • Dealer Member's minimum capital is $200,000 except for a Type 1 introducing broker,	For AI client margined positions • optional use of portfolio-based methodology available to Dealer Members with a minimum capital of $10 million; otherwise position-based methodology at 50% of normal margin rate • portfolio-based methodology limited to certain classes of	*Scope of users* *(i) Should Dealer Members be given the choice of using the portfolio-based methodology for their AI client positions? If the use of a portfolio-based margining methodology for the margining of these client accounts was made optional for all qualifying Dealer Members, would these Dealer*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
	which is $75,000 • Dealer Member's risk adjusted capital must not be less than $0	investment products on certain markets • optional use of portfolio-based methodology to be implemented in stages	*Members really have a choice or would they feel compelled to allow the use a portfolio-based margining methodology for these clients in order to remain competitive?* *(ii) Should Dealer Members have to meet a minimum capital requirement before they may use the portfolio-based methodology for their AI client positions? If yes, what should the minimum capital be? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members?* *(iii) Should there be an overall leverage limit compared to a Dealer Member's capital on the amount loaned to these clients under this methodology? If so, what should the leverage limit be?* *(iv) Should Dealer Members have to satisfy other conditions, in addition to a minimum capital requirement? If so, what should*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			those other conditions be? *(v) Should the Dealer Member be required to assess whether the portfolio-based methodology is suitable for their AI clients?* *(vi) Should an AI client be required to maintain a set account asset value in order to be eligible for the portfolio-based methodology? If so, what should that account asset value be?* *(vii) Should the AI client account have to satisfy other conditions to be eligible to use the portfolio-based methodology? If yes, what should they be?* *Scope of products* *(viii) Should the portfolio-based methodology be limited to certain investment products on certain markets? If so, what investment products and markets should be excluded and should they be excluded because of liquidity risk concerns?* *(ix) Should compensating risk*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			controls be considered as an alternative to excluding certain investment products that have liquidity risk concerns and if so, what should those compensating risk controls be and what products should they apply to? *(x) For investment products in an AI account that are ineligible for portfolio margining due to liquidity concerns, should these positions be subject to position-based margining and specific offset-based margining or should another margining methodology apply to them. If so, what should that margining methodology be?*
(b) Acceptable Counterparty (AC), "qualifying non-individual client"	For AC client margined positions • not subject to mandatory position-based methodology; Dealer Members may deal with AC clients on a value for value basis with mark to market imposed on outstanding transactions • Dealer Member's minimum capital is $200,000 except for	For AC client margined positions • optional use of portfolio-based methodology available to Dealer Members with a minimum capital of $10 million; otherwise position-based methodology at 50% of normal margin rate • portfolio-based methodology limited to certain classes of	*Scope of users* *(i) Should Dealer Members be given the choice of using the portfolio-based methodology for their AC client positions? If the use of a portfolio-based margining methodology for the margining of these client accounts was made optional for all qualifying Dealer Members, would these Dealer*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
	a Type 1 introducing broker, which is $75,000 • Dealer Member's risk adjusted capital must not be less than $0	investment products on certain markets • optional use of portfolio-based methodology to be implemented in stages	*Members really have a choice or would they feel compelled to allow the use a portfolio-based margining methodology for these clients in order to remain competitive?* *(ii) Should Dealer Members have to meet a minimum capital requirement before they may use the portfolio-based methodology for their AC client positions? If so, what should the minimum capital be? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members?* *(iii) Should there be an overall leverage limit compared to a Dealer Member's capital on the amount loaned to these clients under this methodology? If so, what should the leverage limit be?* *(iv) Should Dealer Members have to satisfy other conditions than a minimal capital requirement? If so, what should those other conditions*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			be? *(v) Should the Dealer Member be required to assess whether the portfolio-based methodology is suitable for the AC client?* *(vi) Should the AC client be required to maintain a set account asset value to be eligible for the portfolio-based methodology? If so, what should that account asset value be?* *(vii) Should the AC client account have to satisfy other conditions in order to be eligible to use the portfolio-based methodology? If so, what should they be?* *Scope of products* *(viii) Should the portfolio-based methodology be limited to certain investment products on certain markets? If so, what investment products and markets should be excluded and should they be excluded because of liquidity risk concerns?* *(ix) Should compensating risk*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			controls be considered as an alternative to excluding certain investment products that have liquidity risk concerns and if so, what should those compensating risk controls be and what products should they apply to? *(x) For investment products in an AC account that are ineligible for portfolio margining due to liquidity concerns, should these positions be subject to position-based margining and specific offset-based margining or should another margining methodology apply to them. If so, what should that margining methodology be?*
(c) Regulated Entity (RE), "qualifying non-individual client"	For RE client margined positions • not subject to mandatory position-based methodology; Dealer Members may deal with RE clients on a value for value basis with mark to market imposed on outstanding transactions • Dealer Member's minimum capital is $200,000 except for	For RE client margined positions • optional use of portfolio-based methodology available to Dealer Members with a minimum capital of $10 million; otherwise position-based methodology at 50% of normal margin rate • portfolio-based methodology	*Scope of users* *(i) Should Dealer Members be given the choice of using the portfolio-based methodology for their RE client positions? If the use of a portfolio-based margining methodology for the margining of these client accounts was made optional for all qualifying Dealer Members, would these Dealer*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
	a Type 1 introducing broker, which is $75,000 • Dealer Member's risk adjusted capital must not be less than $0	limited to certain classes of investment products on certain markets • optional use of portfolio-based methodology to be implemented in stages	*Members really have a choice or would they feel compelled to allow the use a portfolio-based margining methodology for these clients in order to remain competitive?* *(ii) Should Dealer Members have to meet a minimum capital requirement before they may use the portfolio-based methodology for their RE client positions? If yes, what should the minimum capital be? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members?* *(iii) Should there be an overall leverage limit compared to a Dealer Member's capital on the amount loaned to these clients under this methodology? If so, what should the leverage limit be?* *(iv) Should Dealer Members have to satisfy other conditions than a minimal capital requirement? If yes, what should those other*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			conditions be? *(v) Should the Dealer Member be required to assess whether the portfolio-based methodology is suitable for the RE client?* *(vi) Should the RE client be required to maintain a set account asset value to be eligible for the portfolio-based methodology? If yes, what should that account asset value be?* *(vii) Should the RE client account have to satisfy other conditions to be eligible to use the portfolio-based methodology? If yes, what should they be?* *Scope of products* *(viii) Should the portfolio-based methodology be limited to certain investment products on certain markets? If so, what investment products and markets should be excluded and should they be excluded because of liquidity risk concerns?* *(ix) Should compensating risk*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			controls be considered as an alternative to excluding certain investment products that have liquidity risk concerns and if so, what should those compensating risk controls be and what products should they apply to? *(x) For investment products in a RE account that are ineligible for portfolio margining due to liquidity concerns, should these positions be subject to position-based margining and specific offset-based margining or should another margining methodology apply to them. If so, what should that margining methodology be?*
(d) Other	For Other client margined positions • mandatory use of position-based methodology at 100% of normal margin rate • Dealer Member's minimum capital is $200,000 except for a Type 1 introducing broker, which is $75,000	For Other client margined positions • For accredited investor client optional use of portfolio-based methodology available to Dealer Members with a minimum capital of $10 million; otherwise position-based methodology at 50% of normal margin rate (for	*Scope of users* *(i) Should Dealer Members be given the choice of using the portfolio-based methodology for their accredited investor client positions? If the use of a portfolio-based margining methodology for the margining of these client accounts was made optional for all qualifying Dealer Members, would*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
	• Dealer Member's risk adjusted capital must not be less than $0	accredited investor client) or 100% of normal margin rate (non-accredited investor client) • portfolio-based methodology limited to certain classes of investment products on certain markets • optional use of portfolio-based methodology to be implemented in stages	*these Dealer Members really have a choice or would they feel compelled to allow the use a portfolio-based margining methodology for these clients in order to remain competitive?* *(ii) Should Dealer Members have to meet a minimum capital requirement before they may use the portfolio-based methodology for their accredited investor client positions? If yes, what should the minimum capital be? Would a set minimum capital amount for a Dealer Member, such as $10 million, create an unfair competitive advantage for some Dealer Members?* *(iii) Should there be an overall leverage limit compared to a Dealer Member's capital on the amount loaned to these clients under this methodology? If so, what should the leverage limit be?* *(iv) Should Dealer Members have to satisfy other conditions than a minimal capital requirement? If*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			yes, what should those other conditions be? *(v) Should the Dealer Member be required to assess whether the portfolio-based methodology is suitable for the accredited investor client?* *(vi) Should the accredited investor client be required to maintain a set account asset value to be eligible for the portfolio-based methodology? If yes, what should that account asset value be?* *(vii) Should the accredited investor client account have to satisfy other conditions to be eligible to use the portfolio-based methodology? If yes, what should they be?* *Scope of products* *(viii) Should the portfolio-based methodology be limited to certain investment products on certain markets? If yes, what investment products and markets should be excluded and should they be excluded because of liquidity risk*

Entities	Current margin treatment	IIROC staff's proposed framework	Questions
			concerns? *(ix) Should compensating risk controls be considered as an alternative to excluding certain investment products that have liquidity risk concerns and if so, what should those compensating risk controls be and what products should they apply to?* *(x) For investment products in an accredited investor account that are ineligible for portfolio margining due to liquidity concerns, should these positions be subject to position-based margining and specific offset-based margining or should another margining methodology apply to them. If so, what should that margining methodology be?*