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**CIRCULAR**  
December 9, 2005

## **SECURITIES CONCENTRATION CHARGE EXPOSURE THRESHOLDS**

### **AMENDMENTS TO THE NOTES AND INSTRUCTIONS OF SCHEDULE 9 OF THE JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT – POLICY C-3 OF BOURSE DE MONTRÉAL INC.**

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to the Notes and Instructions of Schedule 9 of the Joint Regulatory Financial Questionnaire and Report (Policy C-3 of the Bourse) which deals with securities concentration charge calculations. These amendments are effective immediately.

The purpose of these amendments is to standardize the interpretation of the concentration charge thresholds calculation by using a more precise wording for the Notes and Instructions of Schedule 9 of Policy C-3.

Prior to these amendments, the calculation for concentration thresholds could be interpreted as meaning either:

- $[\frac{1}{2}$  of the Risk Adjusted Capital before securities concentration charge] + minimum capital;

or

- $\frac{1}{2}$  of the [Risk Adjusted Capital before securities concentration charge + minimum capital].

The latter interpretation is the correct one and the wording of the Notes and Instructions of Schedule 9 of Policy C-3 has been modified accordingly.

For further information, please contact Jacques Tanguay, Vice-President, Regulatory Division, at (514) 871-3518, or by e-mail at [jtanguay@m-x.ca](mailto:jtanguay@m-x.ca).

Joëlle Saint-Arnault  
Vice-President, Legal Affairs and Secretary

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**SCHEDULE 9  
NOTES AND INSTRUCTIONS**

**General**

1. The purpose of this schedule is to disclose the largest ten issuer positions that are being relied upon for loan value whether or not a concentration charge applies. **If there are more than ten issuer positions where a concentration exposure exists, then all such issuer positions must be listed on the schedule.**
2. For the purpose of this schedule, 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 with a normal margin requirement of 10% or less) where:
  - loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account; or
  - an inventory position is being held.
3. Securities that are required to be in segregation or safekeeping should not be included in the issuer position. Securities that have been segregated but are not required to be can still be relied on by the Member for loan value and must be included in the issuer position.
4. For the purpose of this schedule only, stripped coupons and residuals, [if they are held on a book based system, and are in respect of federal and provincial debt instruments], should be margined at the same rate as the underlying security.
5. For short positions, the loan value is the market value of the short position.

**Client position**

6. (a) 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 that qualify for a margin offset may be eliminated.  
(b) 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.

**Firm's own position**

7. (a) Firm'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.  
(b) The amount reported must include uncovered stock positions in market-maker accounts.

**Amount Loaned**

8. The client and firm's own positions reported are to be determined based on the combined client/firm's own long or short position that results in the largest amount loaned exposure.  
(b) 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 9, Cash Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (b)) of the gross long client position (if any) contained within client cash accounts;

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**NOTES AND INSTRUCTIONS (Continued)**

- the market value (calculated pursuant to the market value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (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 firm's own position (if any).
- (c) To calculate the combined amount loaned on the short position exposure, 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 firm's own position (if any).
- (d) If the loan value of an issuer position (net of issuer securities required to be in segregation/safekeeping) does not exceed one-half (one-third in the case of an issuer position which qualifies under either Note 9(a) or 9(b) below) of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) as most recently calculated, the completion of the column titled "Adjustments in arriving at Amount Loaned" is optional. However, nil should be reflected for the concentration charge.
- (e) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:
- (i) Security positions that qualify for a margin offset may be excluded, as previously discussed in notes 6(a) and 7(a);
  - (ii) Security positions that represent excess margin in the client's account may be excluded. (Note if the starting point of the calculations is securities not required to be in segregation/safekeeping, this deduction has already been included in the loan value calculation of Column 6.);
  - (iii) In the case of margin accounts, 25% of the market value of long positions in any: (a) non-marginable securities or, (b) 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;
  - (iv) 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 9, Cash Accounts Instruction (a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;
  - (v) 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
  - (vi) Any security 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.
- (e) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

**Concentration Charge**

9. (a) Where the Amount Loaned reported relates to securities issued by
- (i) the Member, or
  - (ii) a company, where the accounts of a Member are included in the consolidated financial statements and where the assets and revenue of the Member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the member for the preceding fiscal year and the total Amount Loaned

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**NOTES AND INSTRUCTIONS (Continued)**

by a Member on such issuer securities exceeds one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.

- (b) Where the Amount Loaned reported relates to non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted market value calculation set out in Schedule 4, Note 9, and the total Amount Loaned by a Member on such issuer securities exceeds one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.
- (c) Where the Amount Loaned reported relates to arm's length marginable securities of an issuer (i.e., securities other than those described in note 9(a), or 9(b)), and the total Amount Loaned by a Member on such issuer securities exceeds two-thirds of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over two-thirds of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.
- (d) Where:
  - (i) The Member has incurred a concentration charge for an issuer position under either note 9(a) or 9(b) or 9(c); or
  - (ii) The Amount Loaned by a Member on any one issuer (other than issuers whose securities may be subject to a concentration charge under either Note 9(a) or 9(b) above) exceeds one-half of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated; **and**
  - (iii) The Amount Loaned on any **other issuer** exceeds one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either Note 9(a) or 9(b) above) of the sum of Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4); **then**
  - (iv) A concentration charge on such other issuer position of an amount equal to 150% of the excess of the Amount Loaned on the **other issuer** over one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either Note 9(a) or 9(b) above) of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the security(ies) for which such charge is incurred.
- (e) For the purpose of calculating the concentration charges as required by notes 9(a), 9(b), 9(c) and 9(d) above, such calculations shall be performed for the largest five issuer positions by Amount Loaned in which there is a concentration exposure.

**Other**

- 10. (a) Where there is an over exposure in a security and the concentration charge as referred to above would produce either a capital deficiency or a violation of the Early Warning Rule, the Member must report the over exposure situation to the appropriate Joint Regulatory Body on the date the over exposure first occurs.
- (b) A measure of discretion is left with the Joint Regulatory Bodies in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities are carried in "readily saleable quantities".