1.1.2 IDA Proposed New Methodology for Margining Equity Securities and Related Amendments to Regulation 100 and Form 1

THE INVESTMENT DEALERS ASSOCIATION (IDA)

PROPOSED NEW METHODOLOGY FOR MARGINING EQUITY SECURITIES AND RELATED AMENDMENTS TO REGULATION 100 AND FORM 1

NOTICE OF COMMISSION APPROVAL

The Ontario Securities Commission (OSC) approved a new methodology for margining equity securities and related amendments to Regulation 100 and Form 1 proposed by the IDA (Proposal). In addition, the Autorité des marchés financiers (AMF) approved, and the Alberta Securities Commission (ASC) and the British Columbia Securities Commission (BCSC) did not object to the Proposal. Current IDA rules require its members and their clients to maintain margin on securities to cover the risk of loss associated with holding the securities. The amount of margin to be maintained for a security is based on the market price per share of the security. Since market price is not a good indicator of the market risk of a security, the IDA proposed a new methodology, the Basic Margin Rate Methodology, to determine the margin rates for securities based on their price risk and liquidity risk. Under the proposed methodology, the price risk of a security would be determined by its historical price volatility, and liquidity risk would be determined by its average daily traded volume and total public float. The IDA will use this Basic Margin Rate Methodology to determine margin rates for equity securities listed in Canadian and U.S. markets that impose certain minimum initial and ongoing financial listing requirements.

The Proposal was published for comment on January 13, 2006 at (2006) 29 OSCB 420. Immaterial changes have been made to the proposed policy to reflect that The Nasdaq Stock Market is now a recognized exchange in the U.S. and to correct minor typographical errors. The revised Proposal, black-lined to indicate the changes from the previously published version, is included in Chapter 13 of this Bulletin.