



CIRCULAR
February 12, 2004

SPONSORED OPTIONS: ELIGIBILITY CRITERIA OF A SPONSOR
AMENDMENTS TO ARTICLE 6642

Bourse de Montréal Inc. (the "Bourse") adopted amendments to article 6642 of its Rules regarding the eligibility criteria of a sponsor under the Sponsored Options Program of the Bourse. The amendments will permit Canadian Approved Participants of the Bourse to qualify as sponsors. These amendments are effective immediately.

Originally, the Bourse's Sponsored Options Program excluded approved participants from the status of Sponsor due to the relatively low minimum capital requirements imposed on approved participants compared to those required from an Acceptable Institution. However, if an approved participant meets the same requirements in terms of capital as an Acceptable Institution, there should be no reason that the approved participant cannot become a Sponsor. The amendments to article 6642 aim to fill this gap and thus permit the Bourse's approved participants to be recognized as Sponsors when the risk adjusted capital of the approved participant is equal to or greater than \$100 million Canadian dollars, which corresponds to the minimum requirement for an institution to qualify as an Acceptable Canadian Institution.

For further information, please contact the Bourse at legal@m-x.ca.

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6642 Eligibility criteria of a sponsor
(28.01.02, 12.02.04)

In order for an entity to act as a sponsor, it must fulfill the following conditions:

- 1) meet the definition of "acceptable institution" as defined in Policy C-3 of the Bourse;
- 2) be a client of an approved participant. The approved participant must be a subsidiary of the sponsor and be a Canadian Derivatives Clearing Corporation member;
- 3) the approved participant defined in 2) must act as the sole market maker on the options sponsored by the entity either on its own initiative or by carrying out the instructions given by the sponsor or by a subsidiary of the sponsor;
- 4) the entity cannot sponsor options having as underlying interest its own shares, those of one of its subsidiaries or those of any company on which the entity has, directly or indirectly, an effective control.
- 5) the sponsor must sign a sponsor agreement in the form prescribed by the Bourse;
- 6) when assessing the eligibility of a sponsor, the Bourse evaluates the previous experience of the sponsor with similar financial instruments.

The Bourse may also permit an approved participant to act as sponsor if it satisfies the following conditions;

- 1) The approved participant is not a foreign approved participant of the Bourse;
- 2) The approved participant is a member of the Canadian Derivatives Clearing Corporation;
- 3) The risk adjusted capital of the approved participant is equal to or greater than \$100 million Canadian dollars as is shown by the most recent audited "Joint Regulatory Financial Questionnaire and Report" of the approved participant and is maintained at all times at a minimum amount of \$100 million Canadian dollars;
- 4) The approved participant must submit monthly to the Bourse, and this without regard to its audit jurisdiction, a copy of the monthly financial report requested in virtue of the Rules of the Bourse;
- 5) The approved participant cannot sponsor options having as underlying interest its own shares, those of its parent or those of one of its subsidiaries or any such other company which is affiliated to the approved participant or on which the approved participant has, directly or indirectly, an effective control;
- 6) The approved participant must act as the sole market maker on the options it sponsors; and
- 7) The approved participant must sign a sponsor agreement in the form prescribed by the Bourse.

If the risk adjusted capital of the approved participant falls below the amount of \$100 million Canadian dollars as mentioned above or if the approved participant triggers one of the thresholds of the Early Warning System, as defined in the Rules and Policy C-3 of the Bourse, the approved participant must notify the Bourse immediately and no new sponsored option class or series can be sponsored by the

approved participant until it has re-established its risk adjusted capital to an amount equal to or greater than \$100 million Canadian dollars or, if it may be the case, that it does not trigger any additional thresholds of the Early Warning System.