☒	**Trading – Interest Rate Derivatives**	☒	**Back-office - Options**
☒	**Trading – Equity and Index Derivatives**	☒	**Technology**
☒	**Back-office – Futures**	☒	**Regulation**

CIRCULAR
February 24, 2005

REQUEST FOR COMMENTS

MARGIN AND CAPITAL REQUIREMENTS FOR OFFSET POSITIONS IN CANADIAN DEBT SECURITIES AND RELATED FUTURES CONTRACTS

AMENDMENTS TO ARTICLES 7204A, 9323 AND 9423

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to articles 7204A, 9323 and 9423 of the Rules of the Bourse, which deal with market risk reduction of offset positions in debt securities of different issuers and of different maturity bands by expanding the number of permissible offsets, as well as with keeping the offsets available for Government of Canada bond futures contract positions consistent with those available for bonds in general.

Process for Changes to the Rules

Bourse de Montréal Inc. is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

Circular no.: 030-2005

Tour de la Bourse
P.O. Box 61, 800 Victoria Square, Montréal, Quebec H4Z 1A9
Telephone: (514) 871-2424
Toll-free within Canada and the U.S.A.: 1 800 361-5353
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The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules and Policies of the Bourse governing approved participants, among which, the Rules and Policies relating to margin and capital requirements. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules and Policies with recommendation from the Special Committee. These changes are submitted to the Autorité for approval.

Comments on the proposed amendments to articles 7204A, 9323 and 9423 of the Rules of the Bourse must be submitted within 30 days following the date of publication of the present notice in the bulletin of the Autorité. Please submit your comments to:

Ms. Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca

A copy of these comments shall also be forwarded to the Autorité to:

Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Appendices

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined, if applicable, with the other Canadian self-regulatory organizations following approval by the "Autorité des marchés financiers”.

Bourse de Montréal Inc.

MARGIN AND CAPITAL REQUIREMENTS FOR OFFSET POSITIONS IN CANADIAN DEBT SECURITIES AND RELATED FUTURES CONTRACTS

– AMENDMENTS TO ARTICLES 7204A, 9323 AND 9423

I OVERVIEW

A) Current Rules

Under the current Rules of Bourse de Montreal Inc. (the Bourse), positions in Canadian debt securities can be paired to reduced their margin and capital requirements only when they have the same maturity band. Canadian debt securities can also be paired with 5-year or 10-year Government of Canada bond futures contracts for relief in margin and capital requirements but only if these debt securities mature within three to eleven years.

B) The Issue

The current offset rules for Canadian debt securities are out of date and are overly conservative. The current rules:

- do not provide relief for margin and capital purposes for offset positions in Government of Canada or provincial bonds of different maturity bands, even though correlation studies indicate that the market risk associated with such combined positions is less than that of an unhedged debt position; and
- set margin and capital requirements for offset positions that are significantly higher than necessary to cover the market risk of these positions.

C) Objective

The objective of the proposed amendments to article 7204A is to recognize for regulatory purposes the market risk reduction of offset positions in debt securities of different issuers and of different maturity bands by expanding the number of permissible offsets. The objective of the accompanying amendments to articles 9323 and 9423 is to keep the offsets available for Government of Canada bond futures contracts positions consistent with those available for Government of Canada bonds.

D) Effect of Proposed Rules

The proposed amendments should not have any significant impact on market structure, competitiveness of approved participants versus other firms and costs of compliance. The proposed amendments will allow to align the margin and capital requirements for debt offset positions more closely with their market risk and thus reduce the conservatism of the current offset rules. The cost of any systems change associated with the proposed amendments is considered to be immaterial.

II DETAILED ANALYSIS

A) Current Rules

As mentioned previously the current offset rules are out of date and overly conservative. Correlation studies[1] indicate that the market risk associated with certain offset positions involving Government of Canada and provincial bonds of different maturity bands is significantly lower than current margin and capital requirement

[1] These studies were done by the IDA staff and are presented as Attachment 1.

would indicate. More specifically, the current requirement for offset positions involving debt securities of different maturity bands is overly conservative as it is greater than the requirement for an equivalent unhedged position.

The current maturity bands as prescribed in article 7204 are the following:

- within 1 year;
- over 1 year to 3 years;
- over 3 years to 7 years;
- over 7 years to 11 years; and
- over 11 years.

B) Proposed Rules

The proposed amendments to articles 7204A, 9323 and 9423 will recognize for regulatory purposes the risk reduction associated with offset positions in debt securities of different issuers and of different maturity bands by expanding the number of permissible offsets and allowing reduced margin and capital requirements as follows:

- the margin and capital requirements applicable to positions in Government of Canada bonds, provincial bonds or Government of Canada bond futures contracts paired with other positions in Government of Canada bonds or provincial bonds of different maturity bands, will be 50% of the greater of the margin on the long and short positions; and

- the margin and capital requirements applicable to positions in municipal bonds, paired with Government of Canada bonds, provincial bonds or Government of Canada bond futures contracts of same maturity bands will be 50% of the greater of the margin on the long and short positions, provided the municipal bonds have a long-term issuer credit rating of single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service, or Standard & Poor's Bond Record.

For a comparison between the current and proposed margin and capital requirements, see Attachment 2.

Offset positions involving Government of Canada bond futures contracts

Some specific changes are also proposed to offsets involving Government of Canada bond futures contracts presented in articles 9323 and 9423. These changes are:

The use of a generic term to designate Government of Canada bond futures contracts

In its effort to streamline its rules, the Bourse proposes to replace the term "5-year (CGF) or 10-year (CGB) notional Government of Canada bond futures contracts" by a more generic term, which is "Government of Canada bond futures contracts". This will give a broader application of the rules and will facilitate the introduction of new products[2].

The use of specific maturity bands for offsets between Government of Canada bond futures contracts and debt securities

Currently, Government of Canada bond futures contracts (CGF and CGB) can be paired with debt securities when these securities are maturing within 3 to 11 years. In order to be consistent with the proposed amendments to offsets between debt securities and with the proposed amendment to remove any reference to specific products, maturity bands for offsets between Government of Canada bond futures contracts and debt securities will be the one referred to in article 7204.

C) Comparison with Similar Provisions

United States

[2] For example, 5-year Government of Canada bond futures contracts (CGF) are no longer listed on the Bourse. However, 2-year Government of Canada bond futures contracts (CGZ) are listed on the Bourse but there are no current rules available allowing offsets between these bond futures contracts and debt securities.

Strategy based rules

The US strategy based rules allow complete offsets for positions in US and Canadian government debt in the same maturity subcategory and partial offsets of bonds of different maturity subcategories in which case risk weight factors (haircut percentages) are applied. For municipal bonds, the larger of the long and short positions is regarded as the position at risk. In some cases, a complete offset is allowed and in other cases a haircut is applied to the market value of the position at risk regardless of the category of maturity.

Value at Risk (VaR) modeling

In November 2003 the SEC issued for comment new Alternative Net Capital Requirements (ANCR) based on Basel II Accord. The ANCR proposal makes use of the Basel II capital standards available to U.S. securities dealers provided the dealer maintains tentative net capital of at least USD $1 billion and net capital of at least USD $500 million and, where the dealer is part of a financial conglomerate, grants to the SEC conglomerate-wide regulatory jurisdiction. Once adopted, this proposal will allow the use of VaR modeling to determine the capital required on a dealer's proprietary trading book, including positions held and offsets involving debt securities.

United Kingdom

Strategy based rules

The UK strategy based rules only allow for complete offsets between the long and short positions of the same issue. For positions in securities of same and adjacent maturity bands, the offset coefficients which reflect the interrelationship of the volatility of the long and short positions that are being matched are used to determine the extent that market risk is reduced.

Value at Risk (VaR) modeling

Recognizing that risk-based margining rules are more efficient than strategy-based rules in assessing market risk, the Financial Services Authority permits the use of VaR models for calculating the "position risk requirement" for positions held and offsets involving debt securities.

D) Public Interest Objective

The objective of the proposed amendments is to expand the number of offsets available and revise the existing rules to remove excess conservatism. Consequently, the proposed amendments are considered to be in the public interest.

III COMMENTARIES

A) Effectiveness

The proposed amendments will recognize for regulatory purposes the market risk reduction of offset positions in debt securities of different issuers and of different maturity bands by expanding the number of permissible offsets.

B) Process

The first step of the approval process for the regulatory amendments proposed in the present document consists in having the proposed amendments approved by the Special Committee – Regulatory Division of the Bourse. The second step consists in submitting the proposed amendments to the approval of the Rules and Policies Committee of the Bourse. Once the approval of the Rules and Policies Committee obtained, the project is simultaneously published by the Bourse for a 30-day comment period and submitted to the Autorité des marchés financiers du Québec for approval and to the Ontario Securities Commission for information.

IV REFERENCES

- Rule Seven of Bourse de Montréal Inc.;
- Rule Nine of Bourse de Montréal Inc.;

- Rule 15c3-1(c)(2)(vi)(A) relating to the margin treatment of government securities, Securities Exchange Act of 1934;
- Rule 15c3-1(c)(2)(vi)(B) relating to the margin treatment of municipal government securities, Securities Exchange Act of 1934;
- Proposed SEC Alternative Net Capital Requirements (ANCR), November 2003; and
- FSA Interim Prudential Sourcebook: Investment Businesses – Chapter 10, Rules 10-100 to 10-107 – Interest Rate Method of calculating Position Risk Requirement.

CORRELATION STUDIES MADE BY IDA STAFF

The results of the analysis, that examined the price volatility of certain benchmark bonds and offset positions over a ten-year period from January 1994 to July 2004 and calculated the price risk based on 99.7% confidence level and three-day liquidation period, are tabulated in Tables I to V below:

TABLE I – GOC BOND VOLATILITY ANALYSIS APRIL 1994-JULY 2004

	Std Dev (bp*)	Duration	Price risk	Current margin rates	Unhedged margin as multiple of price risk
	I	IIi	IIIi	IV	V
2 year	32.8	1.74	0.6%	1%	1.8
3 year	31.4	2.12	0.7%	1%	1.5
5 year	28.6	3.64	1.0%	2%	1.9
7 year	26.7	4.93	1.3%	2%	1.5
10 year	24.7	6.99	1.7%	4%	2.3
Long-term	19.9	13.50	2.7%	4%	1.5

* “bp” means “basis points”

The analysis of GOC bond volatility indicates that margin rates for unhedged GOC positions adequately cover the price risk in most circumstances. For example, the price risk of long-term bond is 2.7% compared to a margin requirement of 4%, which represents approximately 1.5 times the price risk. Column V shows current margin rates for bonds of various maturities expressed as a multiple of their price risk indicating the relative conservatism of the current margin rates.

I GOC OFFSET POSITIONS

IDA staff analyzed the price risk of offset positions in GOC bonds of different maturity bands in order to determine whether margin relief should be permitted for these offset positions. Results of the analysis are provided in Table II below. Column III shows the price risk of the offset position:

TABLE II – GOC BONDS OFFSET POSITIONS

	Std Dev (bp)	Duration of longer bond	Price risk	Current long & short margin	Proposed
	I	II	III	IV	V
2 year vs. 5 year	14	3.64	0.51%	3%	1%
2 year vs. 10 year	19	4.93	0.92%	5%	2%
2 year vs. Long Term*	23	13.50	3.04%	5%	2%
5 year vs. 10 year	9	6.99	0.64%	6%	2%
5 year vs. Long Term*	15	13.50	1.98%	6%	2%
10 year vs. Long Term*	9	13.50	1.15%	8%	2%

* Long Term refers to bonds having a maturity greater than 10 years

The analysis indicates that the price risk of offset positions in GOC bonds of different maturity bands, except for 2 year vs. long-term bond, is significantly lower than the current margin requirement which imposes margin on both the long and short positions. For example, an offset position between 10-year and long-term GOC bond has a price risk of 1.15% compared to a current margin requirement of 8%.

Recognizing the fact that offset positions in GOC bonds effectively reduce the risk of the combined positions, it is proposed that the margin requirements for offset positions in GOC bonds with different maturity bands be amended to be *50% of the greater of the margin required on the long and short position.*

II OFFSET POSITIONS IN GOC BONDS AND US TREASURY BONDS

[…]

For offset positions in GOC bonds and US Treasury bonds the current margin requirement is the greater of the margin on the long and short position. Results of the analysis of the price risk of these offset positions are provided in Table III below:

TABLE III – PRICE RISK OF OFFSET POSITIONS IN GOC BONDS AND US TREASURY BONDS

	Price risk	Current long & short margin	Margin as multiple of price risk
2 year GOC vs. 2 year UST	0.46%	1%	2.19
3 year GOC vs. 3 year UST	0.52%	1%	1.92
5 year GOC vs. 5 year UST	1.04%	2%	1.92
7 year GOC vs. 7 year UST	0.93%	2%	2.15
10 year GOC vs. 10 year UST	1.16%	4%	3.45
Long Term GOC vs. Long Term UST	1.94%	4%	2.06

As the current margin rates for offset positions in GOC bonds and US Treasury bonds provide acceptable degree of price risk coverage no changes are proposed.

III OFFSET POSITIONS IN GOC BONDS AND ONTARIO/QUEBEC PROVINCIAL BONDS

The IDA staff examined the price risk of offset positions in GOC and Ontario/Quebec Provincial bonds of same maturity bands and results of this analysis are provided in Table IV below:

TABLE IV – PRICE RISK OF OFFSET POSITIONS GOC VS ONTARIO/QUEBEC PROVINCIAL BONDS

	Price risk Ontario Prov. bonds	Price risk Quebec Prov. bonds	Current long & short margin	Proposed 50% Prov. margin rate
	I	II	III	IV
2 year GOC vs. 2 year Prov.	0.46%	0.59%	3%	1.5%
3 year GOC vs. 3 year Prov.	0.52%	0.69%	3%	1.5%
5 year GOC vs. 5 year Prov.	1.04%	1.07%	4%	2.0%
7 year GOC vs. 7 year Prov.	0.93%	1.45%	4%	2.0%
10 year GOC vs. 10 year Prov.	1.16%	1.86%	5%	2.5%
Long Term GOC vs. Long Term Prov.	1.94%	3.30%	5%	2.5%

Using Ontario and Quebec Provincial bonds as a proxy for Provincial bonds, the analysis was done on the price risk of offset positions in GOC vs. Ontario and Quebec Provincial bonds. The price risk of these offset positions is shown in columns I and II of the above schedule. The current margin requirement for these offset positions is the margin requirement on the Provincial bond positions, which, as indicated by the analysis, is much higher than warranted by the price risk of offset position in these bonds. It is therefore proposed that the margin requirements for offset positions involving GOC and Provincial bonds in the same maturity bands *be reduced to 50% of the current margin requirement on the Provincial bonds.*

IV OFFSET POSITIONS IN PROVINCIAL BONDS OF DIFFERENT MATURITY BANDS

The analysis of price risk of offset positions in Ontario and Quebec Provincial bonds of different maturity bands is provided in Table V below:

TABLE V – PROVINCIAL BONDS – HEDGED POSITIONS – DIFFERENT MATURITY BANDS

	Price risk Ontario	Price risk Quebec	Current long & short margin	Proposed 50% of the greater
	I	II	III	IV
2 year vs. 5 year	1.85%	1.94%	7%	2.0%
2 year vs. 10 year	1.42%	1.26%	8%	2.5%
2 year vs. Long-term	2.73%	2.94%	8%	2.5%
5 year vs. 10 year	1.15%	0.88%	9%	2.5%
5 year vs. Long-term	2.10%	2.32%	9%	2.5%
10 year vs. Long-term	1.91%	1.90%	10%	2.5%

The analysis indicates that the price risk of offset positions in Provincial bonds of different maturity bands is significantly lower than the current margin requirement, which imposes margin on both the long and short positions. It is therefore proposed that the margin requirement for offset positions in Provincial bonds *of different maturity bands be reduced to 50% of the greater of the margin required on the long and short position.*

V OFFSET POSITIONS IN GOC, PROVINCIAL AND MUNICIPAL BONDS

The current margin requirement for Canadian Municipal bond positions offset by GOC, US Treasury or Provincial bonds of same maturity band is the greater of the margin required on the long or short position (the margin required will generally be the one applicable to Municipal bonds since they are subjected to a higher margin rate). As there is ample evidence that an offset position of Municipal bonds and GOC/Provincial bond has a lower risk than an unhedged position in Municipal bonds, it is proposed that for investment grade Municipal bonds (i.e. Municipal bonds that have a credit rating higher than single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service, or Standard & Poor's Bond Record) the margin requirement for offset positions in Municipal, GOC and Provincial bonds *of same maturity band be reduced to 50% of the current margin requirement on the long and short positions in Municipal bonds*.

APPENDIX A

ATTACHMENT 2

OFFSET POSITIONS INVOLVING CANADIAN DEBT SECURITIES
CURRENT VS PROPOSED MARGIN AND CAPITAL REQUIREMENTS

Offset Strategy	Current Requirement	Proposed Requirement
Government of Canada bonds of **same maturity band** OR Provincial bonds of **same maturity band**	***Maturity greater than 1 year*** Positions may be offset on a net market value basis and margin is computed on the net long or net short position. [article 7204A 1)] ***Maturity less than 1 year*** Margin calculated in both positions may be netted. [article 7204A 2)]	Same
Government of Canada bonds offset with provincial bonds of **same maturity band**	Greater of the margin required on the long or short position. [article 7204A 3) A) a)]	50% of the greater of the margin required on the long or short position. [proposed article 7204A 3) A) b)]
Government of Canada bonds offset with municipal bonds of **same maturity band**	Greater of the margin required on the long or short position. [article 7204A 3) A) b)]	Same [article 7204A 3) B) h)] except where municipal has credit rating of single A or higher, 50% of the greater of the margin required on the long or short position. [proposed article 7204A 3) A) c)]
Provincial bonds offset with municipal bonds of **same maturity band**	Greater of the margin required on the long or short position. [article 7204A 3) A) e)]	Same [article 7204A 3) B) j)] except where municipal has credit rating of single A or higher, 50% of the greater of the margin required on the long or short position. [proposed article 7204A 3) A) e)]
Government of Canada bonds of **different maturity bands**	Sum of the normal margin requirement on the long and short positions.	50% of the greater of the margin required on the long or short position. [proposed article 7204A 3) A) a)]
Government of Canada bonds offset with provincial bonds of **different maturity bands**	Sum of the normal margin requirement on the long and short positions.	50% of the greater of the margin required on the long or short position. [proposed article 7204A 3) A) b)]
Provincial bonds of **different maturity bands**	Sum of the normal margin requirement on the long and short positions.	50% of the greater of the margin required on the long or short position. [proposed article 7204A 3) A) d)]

APPENDIX A

OFFSET POSITIONS INVOLVING GOVERNMENT OF CANADA BOND FUTURES CONTRACTS
CURRENT VS PROPOSED MARGIN AND CAPITAL REQUIREMENTS

Offset Strategy	**Current Requirement**	**Proposed Requirement**
Government of Canada bonds offset with GOC bond futures contracts of **same maturity band***	Positions may be offset on a net market value basis. [articles 9323 a) and 9423 a)]	Same
Government of Canada bonds offset with GOC bond futures contracts of **different maturity bands**	Sum of the normal margin requirement on the long and short position.	50% of the greater of the margin required on the long or short position. [proposed articles 9323 a) and 9423 a)]
Provincial bonds offset with GOC bond futures contracts of **same maturity band***	Greater of the margin required on the long or short position. [articles 9323 b) and 9423 b)]	50% of the greater of the margin required on the long or short position. [proposed articles 9323 b) and 9423 b)]
Provincial bonds offset with GOC bond futures contracts of **different maturity bands**	Sum of the normal margin requirement on the long and short position.	50% of the greater of the margin required on the long or short position. [proposed articles 9323 b) and 9423 b)]
Municipal bonds offset with GOC bond futures contracts of **same maturity band***	Greater of the margin required on the long or short position. [articles 9323 b) and 9423 b)]	Sum of the normal margin requirement on the long and short position except where Municipal has credit rating of single A or higher, 50% of the greater of the margin required on the long or short position. [proposed articles 9323 c) and 9423 c)]
Corporate bonds offset with GOC bond futures contracts of **same maturity band***	Greater of the margin required on the long or short position. [articles 9323 b) and 9423 b)]	Sum of the normal margin requirement on the long and short position except where Corporate has credit rating of single A or higher, greater of the margin required on the long or short position. [proposed articles 9323 d) and 9423 d)]
* For current margin requirements, to be considered in the “same maturity band”, debt securities must be maturing within 3 to 11 years.		

APPENDIX B

7204A Margin offsets
(09.10.91, 27.05.97, 18.02.98, 19.08.98, 17.12.02, 00.00.05)

1) Where an approved participant

   a) owns securities described in Group I or II of article 7204 whose maturity is over one year, and

   b) has a short position in securities

      i) issued or guaranteed by the same issuer of the securities referred to in a) (provided that for these purposes each of the ~~Provinces~~ provinces of Canada must be regarded as the same issuer as any other p~~P~~rovince);

      ii) maturing over one year; ~~and~~

      iii) maturing within the same periods for the purpose of determining margin rates for the securities referred to in a); and

      iv) with a market value equal to the securities referred to in paragraph a) (with the intent that no offset is permitted in respect of the market value of a long [or short] position which is in excess of the market value of the short [or long] position);

   the two positions may be offset and the required margin must be computed with respect to the net long or net short position only. This rule also applies to future purchase and sale commitments.

2) Where an approved participant

   a) owns securities described in Group I or II of article 7204 maturing within one year, and

   b) has a short position in securities

      i) issued or guaranteed by the same issuer of the securities referred to in a) (provided that for these purposes, each of the ~~P~~provinces of Canada must be regarded as the same issuer as any other ~~P~~province)~~,~~;

      ii) maturing within one year~~,~~; and

      iii) with a market value equal to the securities referred to in paragraph a) (with the intent that no offset is permitted in respect of the market value of a long [or short] position which is in excess of the market value of the short [or long] position);

   the margin required must be the excess of the margin on the long (or short) position over the margin required on the short (or long) position. This rule also applies to future purchase and sale commitments.

3) A) Where an approved participant has a short and long position in the following groups of securities of article 7204, the total margin required in respect of both positions must be 50% of the greater of the margin required on the long or short position:

Long (Short)	Short (Long)

a)	Group I (Canada only)	and	Group I (Canada only with different maturity bands)
b)	Group I (Canada only)	and	Group II (province of Canada only with identical or different maturity bands)
c)	Group I (Canada only)	and	Group III (municipality of Canada only)
d)	Group II (province of Canada only)	and	Group II (province of Canada only with different maturity bands)
e)	Group II (province of Canada only)	and	Group III (municipality of Canada only)

~~A~~B) Where an approved participant has a short and long position in the following groups of securities of article 7204, the total margin required in respect of both positions must be the greater of the margin required on the long or short position:

	Long (Short)		Short (Long)
f)	Group I (U.S. Treasury only)	and	Group I (Canada only)
g)	Group I (U.S. Treasury only)	and	Group II (province of Canada only)
h)	Group I (Canada and U.S. Treasury only)	and	Group III (municipality of Canada only)
i)	Group I (Canada and U.S. Treasury only)	and	Group V (corporate)
j)	Group II (province of Canada only)	and	Group III (municipality of Canada only)
k)	Group II (province of Canada only)	and	Group V (corporate)
l)	Group V (corporate)	and	Group V (corporate of the same issuer)

	~~Short (Long)~~		~~Long (Short)~~
~~a)~~	~~Group I (Canada and U.S. Government only)~~	~~and~~	~~Group II (Province of Canada)~~
~~b)~~	~~Group I (as above)~~	~~and~~	~~Group III (Municipality of Canada only)~~
~~c)~~	~~Group I (Canada Government only)~~	~~and~~	~~Group I (U.S. Government only)~~
~~d)~~	~~Group I~~	~~and~~	~~Group V~~

~~(Canada and~~ ~~(corporate)~~
~~U.S. Government only)~~

~~e) Group II~~ and ~~Group III~~
~~(Province of Canada)~~ ~~(Municipality of Canada only)~~

~~f) Group II~~ and ~~Group V~~
~~(as above)~~ ~~(corporate)~~

~~g) Group V~~ and ~~Group V~~
~~(corporate)~~ ~~(corporate of the same issuer)~~

~~The margin required in respect of both positions must be the greater of the margin required on the long or short position.~~

~~For the purposes of the present paragraph, securities described in article 7205 are eligible for an offset identical to the one applicable to securities described in Group V of article 7204.~~

~~B~~C) Furthermore, the offsets described above in paragraphs A) and B) may only apply if the following requirements are complied with:

i) securities offsets described in subparagraphs a), b) and d) can be of different maturity bands, all other offsetting positions must mature within the same periods referred to in article 7204 for the purpose of determining margin rates;

ii) securities described in Group III (municipality of Canada) of article 7204 are eligible for offsets described in subparagraphs c) and e) only if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;

iii) securities described in Group V (corporate) of article 7204 and securities described in article 7205 are eligible for offset only if they are not convertible and have a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;

~~ii~~iv) securities in offsetting positions must be denominated in the same currency; and

~~iii) securities in offsetting positions must mature within the same periods referred to in article 7204 for the purpose of determining margin rates;~~

~~i~~v) the market value of the offsetting positions is equal and no offset is permitted in respect of the market value of the short (or long) position which is in excess of the market value of the long (or short) position.~~; and~~

~~v) securities in offsetting positions used in the calculation must represent an equivalent maturity value.~~

For the purpose of this article, securities described in article 7205 are eligible for an offset identical to the one applicable to securities described in Group V of article 7204.

9323 Futures Contracts and Security Combinations
(01.01.05, 00.00.05)

With respect to futures contracts and securities (including future purchase and sale commitments) held in a client's account, the combinations described in paragraphs a) to ~~c~~e) may only apply if the following requirements are complied with:

i) securities described in Group III (municipality of Canada) of article 7204 are eligible for offset only if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;

ii) securities described in Group V (corporate) of article 7204 are eligible for offset only if they are not convertible and have a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;

iii) securities in offsetting positions must be denominated in the same currency; and

~~iii) securities in offsetting positions must mature within the same periods referred to in article 7204 for the purpose of determining margin rates;~~

iv) the market value of the offsetting positions is equal and no offset is permitted in respect of the market value of the short (or long) position which is in excess of the market value of the long (or short) position~~; and~~.

~~v) securities in offsetting positions used in the calculation must represent an equivalent maturity value.~~

For the purpose of this article, maturity bands are the one referred to in article 7204 for the purpose of determining margin rates.

a) Bond futures contracts combinations with Group I securities

~~Where a client account contains one of the following combinations:~~

- ~~long 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and short a position of Government of Canada securities (including future purchase and sale commitments), as described in Group I of article 7204; or~~
- ~~short 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and long a position of Government of Canada securities (including future purchase and sale commitments) as described in Group I of article 7204;~~

~~and where the securities of the Government of Canada are maturing within 3 to 11 years, the two positions may be offset and the minimum margin required must be the margin required on the net long or short position.~~

Where a client account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in Government of Canada securities as described in Group I of article 7204, and the offsetting positions are maturing within the same maturity band, the total margin required in respect of both positions must be the margin required on the net long or short position;

Where a client account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in Government of Canada securities as described in Group I of article 7204, and the offsetting positions are of different maturity bands, the total margin required in respect of both positions must be 50% of the greater of the margin required on the long or short position.

b) Bond futures contracts combinations with Group II~~, Group III or Group V~~ securities

~~Where a client account contains one of the following combinations:~~

- ~~long 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and short a position of a Province of Canada securities as described in Group II, or of a municipality of Canada securities as described in Group III, or of a corporation securities as described in Group V of article 7204 (including future purchase and sale commitments); or~~

- ~~short 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and long a position of a Province of Canada securities as described in Group II, or of a municipality of Canada securities as described in Group III, or of a corporation securities as described in Group V of article 7204 (including futures purchase and sale commitments);~~

~~and where the securities of the Province of Canada or the municipality of Canada or the corporation are maturing within 3 to 11 years, the minimum margin required in respect of both positions must be the greater of the margin required on the long or short position.~~

Where a client account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in Province of Canada securities as described in Group II of article 7204, and the offsetting positions are maturing within the same or different maturity bands, the total margin required in respect of both positions must be 50% of the greater of the margin required on the long or short position.

c) Bond futures contracts combinations with Group III securities

Where a client account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in municipality of Canada securities as described in Group III of article 7204, and the offsetting positions are maturing within the same maturity band, the total margin required in respect of both positions must be 50% of the greater of the margin required on the long or short position.

d) Bond futures contracts combinations with Group V securities

Where a client account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in corporation securities as described in Group V of article 7204, and the offsetting positions are maturing within the same maturity band, the total margin required in respect of both positions must be the greater of the margin required on the long or short position.

~~c~~e) Canadian bankers' acceptance futures contracts combinations with bankers' acceptance

~~Where a client account contains one of the following combinations:~~

- ~~long 3-month Canadian bankers' acceptance (BAX) futures contracts and short a position in a bankers' acceptance issued by a Canadian chartered bank; or~~

- ~~short 3-month Canadian bankers' acceptance (BAX) futures contracts and long a position in a bankers' acceptance issued by a Canadian chartered bank;~~

~~the minimum margin required in respect of both positions must be the greater of the margin required on the long or short position.~~

Where a client account contains a long (short) 3-month Canadian bankers' acceptance (BAX) futures contracts position and a short (long) position in a bankers' acceptance issued by a Canadian chartered bank, the total margin required in respect of both positions must be the greater of the margin required on the long or short position.

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With respect to futures contracts and securities (including future purchase and sale commitments) held in an approved participant's account, the combinations described in paragraphs a) to ~~c~~e) may only apply if the following requirements are complied with:

i) securities described in Group III (municipality of Canada) of article 7204 are eligible for offset only if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;

ii) securities described in Group V (corporate) of article 7204 are eligible for offset only if they are not convertible and have a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;

iii) securities in offsetting positions must be denominated in the same currency; and

~~iii) securities in offsetting positions must mature within the same periods referred to in article 7204 for the purpose of determining margin rates;~~

iv) the market value of the offsetting positions is equal and no offset is permitted in respect of the market value of the short (or long) position which is in excess of the market value of the long (or short) position~~; and~~.

~~v) securities in offsetting positions used in the calculation must represent an equivalent maturity value.~~

For the purpose of this article, maturity bands are the one referred to in article 7204 for the purpose of determining margin rates.

a) Bond futures contracts combinations with Group I securities

~~Where an approved participant account contains one of the following combinations:~~

- ~~long 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and short a position of Government of Canada securities (including future purchase and sale commitments), as described in Group I of article 7204; or~~

- ~~short 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and long a position of Government of Canada securities (including future purchase and sale commitments) as described in Group I of article 7204;~~

~~and where the securities of the Government of Canada are maturing within 3 to 11 years, the two positions may be offset and the minimum capital required must be the capital required on the net long or short position.~~

Where an approved participant account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in Government of Canada securities as described in Group I of article 7204, and the offsetting positions are maturing within the same maturity band, the total capital required in respect of both positions must be the capital required on the net long or short position;

Where an approved participant account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in Government of Canada securities as described in Group I of article 7204, and the offsetting positions are of different maturity bands, the total capital required in respect of both positions must be 50% of the greater of the capital required on the long or short position.

b) Bond futures contracts combinations with Group II~~, Group III or Group V~~ securities

~~Where an approved participant account contains one of the following combinations:~~

- ~~long 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and short a position of a Province of Canada securities as described in Group II, or of a municipality of Canada securities as described in Group III, or of a corporation securities as described in Group V of article 7204 (including future purchase and sale commitments); or~~

- ~~short 5 year (CGF) or 10 year (CGB) notional Government of Canada bond futures contracts and long a position of a Province of Canada securities as described in Group II, or of a municipality of Canada securities as described in Group III, or of a corporation securities as described in Group V of article 7204 (including future purchase and sale commitments);~~

~~and where the securities of the Province of Canada or the municipality of Canada or the corporation are maturing within 3 to 11 years, the minimum capital required in respect of both positions must be the greater of the capital required on the long or short position.~~

Where an approved participant account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in Province of Canada securities as described in Group II of article 7204, and the offsetting positions are maturing within the same or different maturity bands, the total capital required in respect of both positions must be 50% of the greater of the capital required on the long or short position.

c) Bond futures contracts combinations with Group III securities

Where an approved participant account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in municipality of Canada securities as described in Group III of article 7204, and the offsetting positions are maturing within the same maturity band, the total capital required in respect of both positions must be 50% of the greater of the capital required on the long or short position.

d) Bond futures contracts combinations with Group V securities

Where a client account contains a long (short) Government of Canada bond futures contracts position and a short (long) position in corporation securities as described in Group V of article 7204, and the offsetting positions are maturing within the same maturity band, the total capital required in respect of both positions must be the greater of the capital required on the long or short position.

~~c~~e) Canadian bankers' acceptance futures contracts combinations with bankers' acceptance

~~Where an approved participant account contains one of the following combinations:~~

- ~~long 3-month Canadian bankers' acceptance (BAX) futures contracts and short a position in a bankers' acceptance issued by a Canadian chartered bank; or~~

- ~~short 3-month Canadian bankers' acceptance (BAX) futures contracts and long a position in a bankers' acceptance issued by a Canadian chartered bank;~~

~~the minimum capital required in respect of both positions must be the greater of the capital required on the long or short position.~~

Where an approved participant account contains a long (short) 3-month Canadian bankers' acceptance (BAX) futures contracts position and a short (long) position in a bankers' acceptance issued by a Canadian chartered bank, the total capital required in respect of both positions must be the greater of the capital required on the long or short position.