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

CIRCULAR
March 3, 2005

REQUEST FOR COMMENTS

MARGIN AND CAPITAL REQUIREMENTS FOR CURRENCY OPTIONS

AMENDMENTS TO RULE NINE

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) approved the addition of articles 9601 to 9606 and articles 9651 to 9656 to Rule Nine of the Bourse. The Bourse intends to launch new options with foreign currencies as underlying interest. The purpose of the proposed additions to Rule Nine is to establish margin and capital requirements for positions in and offsets involving such currency options. Since January 1st, 2005, approved participants can use SPAN and TIMS systems to determine the capital required for derivative instruments held in their inventory accounts. Thus, approved participants will be able to use these systems to determine their capital required on currency options.

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.: 036-2005

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 articles 9601 to 9606 and articles 9651 to 9656 to Rule Nine 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, characteristics of the new product, amended Procedures applicable to the execution of cross transactions and the execution of prearranged transactions 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”.

MARGIN AND CAPITAL REQUIREMENTS FOR CURRENCY OPTIONS

– ADDITION OF ARTICLES 9601 - 9606 AND ARTICLES 9651 - 9656

I OVERVIEW

Bourse de Montréal Inc. (the Bourse) intends to launch new options with foreign currencies as underlying interest. The purpose of the proposed additions to Rule Nine is to establish margin and capital requirements for positions in and offsets involving such currency options.

II DETAILED ANALYSIS

A) Current Rules

Currently, there is no margin and capital rules at the Bourse dealing with currency options. Since the currency options that the Bourse intends to list have similar characteristics[1] to index options (European style and cash settled when exercised), the proposed margin and capital rules are derived from the current rules for index options that are currently in Rule Nine of the Bourse.

B) Proposed Rules

Since January 1st, 2005[2], approved participants can use SPAN and TIMS systems to determine the capital required for derivative instruments held in their inventory accounts. Thus, approved participants will be able to use these systems to determine their capital required on currency options.

In order for clients and approved participants not using SPAN or TIMS be subjected to fair margin and capital requirements, the Bourse must provide strategy-based margin and capital rules. As mentioned previously, proposed margin and capital requirements for currency options are similar to the current rules effective for index options.

C) Comparison with Similar Provisions

The Philadelphia Stock Exchange (PHLX) currently lists currency options[3] with strategy-based margin and capital requirements. By comparing the proposed margin and capital rules to the PHLX current rules, the following points are worth mentioning:

- **The Bourse allows a greater number of offsets than PHLX**

To establish strategy-based margin and capital requirements that are fair in comparison to risk-based margin and capital requirements (SPAN and TIMS), the Bourse proposes to include the maximum offsets available rather than limit the strategies available to only the most popular ones used by approved participants and their clients. Also, it should keep to a minimum the number of regulatory amendments needed in the future. The following Table lists the offset strategies proposed by the Bourse in comparison to those available on the PHLX:

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1 Attachment 1 presents an overview of the characteristics of the currency options that the Bourse intends to list.

2 For further information, see circular no. 161-2004, published December 20, 2004, entitled "Margin and capital requirements for options, futures contracts and other derivative instruments".

3 Currency options listed on the PHLX are European and American styles and are settled by physical delivery.

OFFSETS AVAILABLE – PHLX VS. BOURSE		
Strategies	**PHLX**	**Bourse**
Long options	✓	✓
Short options	✓	✓
Long call options and short call options	✓	✓
Long put options and short put options	✓	✓
Short call options and short put options	✓	✓
Long call options and long put options		✓
Long call options, short call options and long put options		✓
Short call options and long position in an asset denominated in the same currency as the one underlying the option	✓	✓
Short put options and short position in an asset denominated in the same currency as the one underlying the option		✓
Long call options and short position in asset denominated in the same currency as the one underlying the option		✓
Long put options and long position in an asset denominated in the same currency as the one underlying the option		✓

- **Some proposed margin and capital requirement calculations are different from PHLX requirements**

The calculations of the margin and capital requirements applicable to various offset strategies involving derivative instruments listed at the Bourse have been recently subjected to an in-depth revision[4]. All offsets listed above have been reviewed and amended, when necessary, to provide a better risk coverage. The proposed rules for margin and capital requirements applicable to currency options are in line with the margin and capital requirements recently reviewed and implemented on January 1, 2005.

The differences between margin and capital rules proposed by the Bourse and the PHLX rules are presented in Attachment 2.

- **Fixing the margin rates for the underlying currencies**

In some instances, margin and capital calculations require to apply a percentage of the market value of the underlying interest. For instance, in the case of equity options carried short in a client account, a rate of 25% must be used. In the case of index options, a floating margin rate is calculated and published monthly. For currency options listed on the PHLX, the margin rate is calculated quarterly by reviewing five-day price changes over the preceding three-year period for each underlying currency. The margin rate is then set at a level that covers price movements at a 97.5% confidence level. Rather than using the PHLX methodology, the Bourse proposes to use the currency spot risk margin rates published on a regular basis by the IDA[5]. The advantages of using IDA margin rates are:

1. better tracking of each currency market risk because margin rates are updated when necessary instead of quarterly;
2. using floating margin rates would required frequent updates for minor rate variations;
3. margin rates are currently calculated for numerous currencies, which would facilitate the listing of new options with different underlying currencies[6]; and
4. IDA margin rates hedge adequately each currency market risk (see Attachment 4 for a graphic representation of the margin rate vs. the daily variation of the currency).

[4] For further information, see circular no. 022-004, published February 17, 2004, entitled "Request for comments: Margin and capital requirements for options, futures contracts and other derivative instruments".

[5] See Attachment 3 for an example of the Notice on foreign currency rates published by IDA.

[6] Initially, the Bourse will offer currency options only on the U.S. Dollar and on the Euro.

On January 1st, 2005, margin rates for underlying currencies were the following:

CURRENCY MARGIN RATES		
Currencies	**PHLX**	**IDA**
Canada – Dollar	2.5%	-
United States – Dollar	-	2.9%
Euro	3.0%	3.0%
Britain – Pound	3.0%	3.0%
Japan – Yen	3.0%	3.0%
Australia - Dollar	3.5%	3.0%
Switzerland - Franc	3.5%	3.0%

- **Fixing minimum margin rate for options carried short in client accounts**

In the case of options carried short in client accounts, a minimum margin required must be calculated. This margin is equivalent to 100% of the market value of the option plus a percentage of the market value of the underlying interest (the aggregate exercise value in the case of put options). For equity options listed on the Bourse, this minimum margin rate is 5% and for index options, the minimum rate is 2%. For currency options listed on the PHLX, the minimum rate is 0.75%.

Since, as demonstrated in the Table above and in Attachment 3, the margin rate on the underlying currency is generally 3% for the most common currencies (the lowest margin rate available is 1%, uniquely for the U.S. dollar) and because the margin calculation for a short currency option, as proposed by the Bourse, is identical to the calculation currently effective on the PHLX, the Bourse considers that the same minimal rate of 0.75% would be adequate.

D) Objective

The objective of the proposed addition of articles 9601 to 9606 and 9651 to 9656 is to establish margin and capital requirements for positions in currency options held in approved participant and client accounts.

E) Effect of Proposed Rules

The effect of these proposed additions is anticipated to be immaterial in terms of impact on market structure, competitiveness of approved participants versus other firms and costs of compliance. It is believed that the proposed additions will establish margin and capital requirements for currency options that hedge adequately the market risk. The cost of any systems change associated with the proposed amendments is considered to be immaterial.

F) Public Interest Objective

The proposed additions will establish margin and capital requirements for currency options similar to margin and capital requirements for derivative instruments currently listed on the Bourse. Consequently, the proposed amendments are considered to be of public interest.

III COMMENTARIES

A) Effectiveness

The proposed additions will establish fair margin and capital requirements on currencies options based on their market risk for all approved participants and their clients.

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 proposed amendments are then submitted 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.

The Special Committee – Regulatory Division of the Bourse has reviewed and approved the addition of articles 9601 to 9606 and articles 9651 to 9656 to Rule Nine of the Bourse at its meeting held on February 15, 2005. Following this approval, the Regulatory Division of the Bourse asks the Rules and Policies Committee to approve the the addition of articles 9601 to 9606 and articles 9651 to 9656, which deal with establishing margin and capital requirements for positions in currency options held in approved participant and client accounts.

IV REFERENCES

- Rule Seven of Bourse de Montréal Inc.;
- Rule Nine of Bourse de Montréal Inc.;
- Rules 721 to 725, Rules of the Board of Governors, Philadelphia Stock Exchange;
- Memorandum Number 1960-04, Foreign Currency Option Margin Levels, October 15, 2004, PHLX.

MARGIN AND CAPITAL REQUIREMENTS PHLX VS BOURSE PROPOSED RULES		
Strategy	**PHLX**	**Proposed Rules**
Long options	100% of the market value of the option.	**Sum of:** **i) 50% of the option's time value if period to expiry ≥ 9 months, otherwise 100%** **ii) the lesser of the margin required on underlying interest or in-the-money amount associated with the option.**
Short options	100% of the market value of the option; plus a percentage of the market value of the underlying interest; minus the out-of-the-money amount associated with the option. Minimum requirement for clients 100% of the market value of the option; plus 0.75% of the market value of the underlying interest (aggregate exercise value in the case of put options)	100% of the market value of the option; plus a percentage of the market value of the underlying interest; minus the out-of-the-money amount associated with the option. Minimum requirement for clients 100% of the market value of the option; plus 0.75% of the market value of the underlying interest (aggregate exercise value in the case of put options)
Call spreads and put spreads	(clients: short option must expires on or before the date of expiration of the long option) **Exercise price of short call option (long put option) is greater than the exercise price of the long call option (short put option):** **100% of the market value of the long option.** Where exercise prices are the opposite: The lesser of the margin required on the short option and the difference between aggregate exercise values.	(clients: short option must expires on or before the date of expiration of the long option) The lesser of the margin required on the short option and the difference between aggregate exercise values.
Short call – short put spreads	The greater of the margin required on call option or put option; **plus 100% of the market value of the other option.**	**The greater of:** i) the greater of the margin required on call option or put option; and **ii) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.**
Long call – long put spreads	Non-available	**The lesser of:** **i) the sum of margin required on both options; or** **ii) 100% of the market values of both options minus the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option.**

MARGIN AND CAPITAL REQUIREMENTS PHLX VS BOURSE PROPOSED RULES		
Strategy	**PHLX**	**Proposed Rules**
Long call options – short call options – long put options	Non-available	**100% of market values of both long options minus 100% of the market value of the short option plus the greater of any excess of the exercise value of the long call options over the exercise value of the short call option or of the long put option.**
Short call options – long asset denominated in the same currency as the one underlying the option	Margin required on underlying interest.	Margin required on long asset **minus in-the-money amount associated with the call option.**
Short put options – short asset denominated in the same currency as the one underlying the option	Non-available	**Margin required on short asset minus in-the-money amount associated with the call option.**
Long call options – short asset denominated in the same currency as the one underlying the option	Non-available	**100% of the market value of the option plus the lesser of the exercise value of the option and the normal credit required on the short asset.**
Long put options – long asset denominated in the same currency as the one underlying the option	Non-available	**The lesser of the margin required on the long asset and the excess of the combined market value of the long asset and the put option over the aggregate exercise value of the put option.**

ATTACHMENT 3

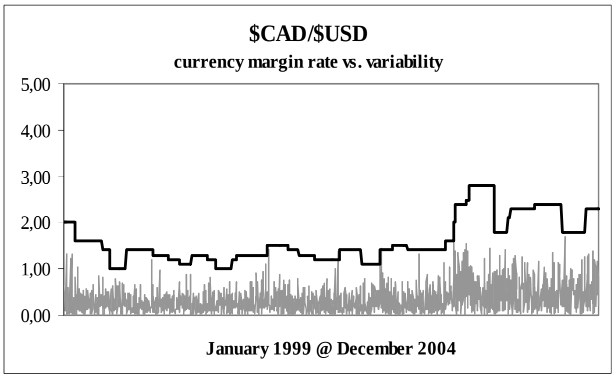
CURRENCY SPOT RISK MARGIN RATES

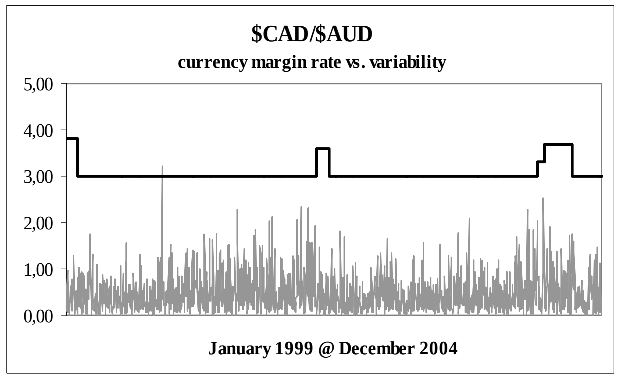
Security Volatility Margin Violation Summary Report								
Securities (FX / Bond / Equity / Index)	**Margin Rate**	**Start Date**	**End Date**	**Trading Days**	**Offside Days**	**% offside**	**Violation Threshold**	
ARGENTINA – PESO	**25.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
AUSTRALIA – DOLLAR	**3.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
BRITAIN – POUND	**3.00**	10/04/04	12/31/04	60	1	1.67	5.00	No
CZECK – KORUNA	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
DENMARK – KRONE	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
EURO	**3.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
HONG KONG – DOLLAR	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
HUNGARY – FORINT	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
JAPAN – YEN	**3.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
MALAYSIA – RINGGIT	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
MEXICO – NEW PESO	**3.00**	10/04/04	12/31/04	60	2	3.33	5.00	No
NEW ZEALAND – DOLLAR	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
NORWAY – KRONE	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
POLAND – ZLOTY	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
SAUDI ARABIA – RIYAL	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
SINGAPORE – DOLLAR	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
SWEDEN – KRONA	**10.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
SWITZERLAND – FRANC	**3.00**	10/04/04	12/31/04	60	0	0.00	5.00	No
UNITED STATES – DOLLAR	**2.90**	10/04/04	12/31/04	60	2	3.33	5.00	No

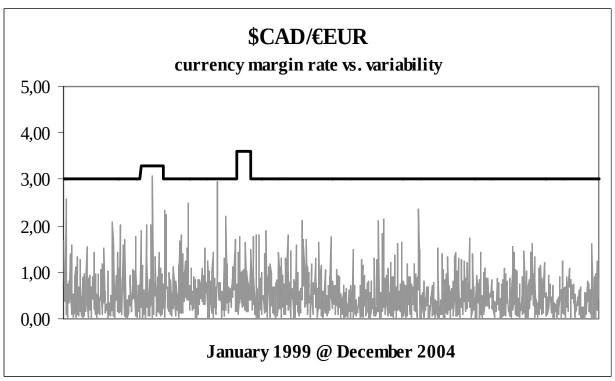
Source: Investment Dealers Association of Canada – Financial Compliance Division **Tuesday, January 4, 2005**

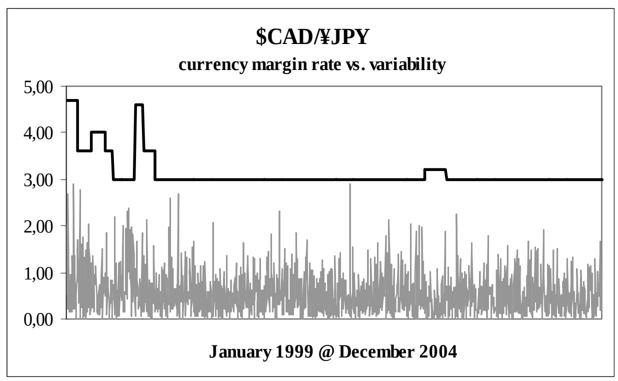
ATTACHMENT 4

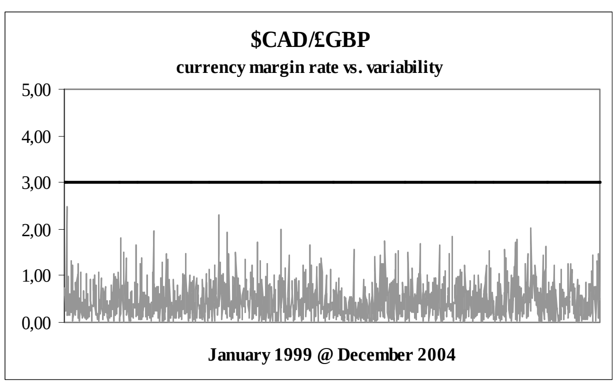
COMPARISON BETWEEN MARGIN RATES AND DAILY VARIATIONS (%)











Section 9601 – 9650
Margin Requirements on Currency-Related Derivatives

9601 Exchange Traded Currency Options – General Provisions
(00.00.05)

a) The Bourse has established margin requirements applicable to currency option positions held by clients and no approved participant must effect a transaction on these options or carry an account for a client without proper and adequate margin, which must be obtained as promptly as possible and maintained in conformity with the provisions of the present section;

b) all opening selling transactions and all resulting short positions must be carried in a margin account;

c) each currency option must be margined separately and any difference between the market price or the current value of the underlying currency and the exercise price of the option must be considered to be of value only in providing the amount of margin required on that particular option;

d) where a client account holds both currency options issued by the Canadian Derivatives Clearing Corporation (CDCC) and currency options issued by the Options Clearing Corporation (OCC) that have the same underlying currency, the OCC options may, for the purpose of the present section, be considered to be equivalent to CDCC options when calculating the margin requirements applicable to a client account;

e) from time to time the Bourse may impose special margin requirements with respect to particular currency options or particular positions in these options;

f) for the purposes of the present section, the "published spot risk margin rate" for a currency means the rate published and modified from time to time by the Investment Dealers Association of Canada.

9602 Long Currency Option Positions
(00.00.05)

The margin requirement for long currency options must be the sum of:

i) where the period to expiry is greater or equal to nine months, 50% of the option's time value, 100% of the option's time value otherwise; and

ii) the lesser of

A) the normal margin required on the underlying currency; or

B) if any, the in-the-money value associated with the option.

For the purpose of the present article, "the option's time value" means any excess of the market value of the option over the in-the-money value of the option.

9603 Short Currency Option Positions
(00.00.05)

a) The minimum margin requirement which must be maintained in respect of a currency option carried short in a client account must be:

i) 100% of the market value of the option; plus

ii) a percentage of the market value of the underlying currency determined by using the published spot risk margin rate for this currency; minus

iii) any out-of-the-money amount associated with the option.

b) paragraph a) notwithstanding, the minimum amount of margin which must be maintained and carried in a client account trading in currency options must not be less than:

i) 100% of the market value of the option; plus

ii) an additional amount determined by multiplying 0.75% by,

A) in the case of a short call option, the market value of the underlying currency; or

B) in the case of a short put option, the aggregate exercise value of the option.

9604 Covered Currency Option Positions
(00.00.05)

a) No margin is required for a currency call option carried short in a client's account where this option is covered by the deposit of an escrow receipt. The underlying currency deposited in respect of such option shall then be deemed to not have any value for margin purposes.

Evidence of a deposit of the underlying currency shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation;

b) no margin is required for a currency put option carried short in a client’s account where such option is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the client. The acceptable government securities held on deposit:

i) must be government securities

A) which are acceptable forms of margin for the clearing corporation; and

B) which mature within one year of their deposit, and

ii) shall not be deemed to have any value for margin purposes.

The aggregate exercise value of the short currency put option must not be greater than 90% of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

c) no margin is required for a currency put option carried short in a client's account if the client has delivered to the approved participant with which such position is maintained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Bourse, and is:

i) a bank which is a Canadian chartered bank or a Quebec savings bank; or

ii) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of at least $5,000,000,

provided that the letter of guarantee certifies that the bank or trust company

iii) holds on deposit for the account of the client cash in the full amount of the aggregate exercise value of the put option and that such amount will be paid to the clearing corporation against delivery of the currency underlying the put option; or

iv) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put option against delivery of the put option underlying currency;

and provided further that the approved participant has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

9605 Currency Options Spreads and Combinations
(00.00.05)

a) Currency call spreads and put spreads

Where a client account contains one of the following spread positions:

- currency long call option and currency short call option; or
- currency long put option and currency short put option;

and the short option expires on or before the date of expiration of the long option, the minimum margin required for the spread position must be the lesser of:

i) the margin required on the short option; or

ii) the spread loss amount, if any, that would result if both options were exercised.

b) Currency short call – short put spreads

Where a currency call option is carried short for a client's account and the account is also short a currency put option on the same number of units of trading on the same underlying currency, the minimum margin required must be the greater of:

i) the greater of

A) the margin required on the call option; or

B) the margin required on the put option;

and

ii) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.

c) Currency long call – long put spreads

Where a currency call option is carried long for a client's account and the account is also long a currency put option on the same number of units of trading on the same underlying currency, the minimum margin required must be the lesser of:

i) the sum of

A) the margin required for the call option; and

B) the margin required for the put option;

and

ii) the sum of

A) 100% of the market value of the call option; plus

B) 100% of the market value of the put option; minus

C) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option.

d) Currency Long call – short call – long put

Where a currency call option is carried long for a client's account and the account is also short a currency call option and long a currency put option on the same number of units of trading on the same underlying currency, the minimum margin required must be:

i) 100% of the market value of the long call option; plus

ii) 100% of the market value of the long put option; minus

iii) 100% of the market value of the short call option; plus

iv) the greater of

A) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; or

B) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in iv) is negative, this amount may be applied against the required margin.

9606 Currency Option and Assets Denominated in the Same Currency Combinations
(00.00.05)

a) Short currency call – long asset in the same currency combination

Where a currency call option is carried short in a client's account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the lesser of:

i) the normal margin required on the asset denominated in the same currency; and

ii) any excess of the aggregate exercise value of the call option over the normal loan value of the asset denominated in the same currency.

b) Short currency put – short asset in the same currency combination

Where a currency put option is carried short in a client's account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the lesser of:

i) the normal margin required on the underlying asset denominated in the same currency; and

ii) any excess of the normal credit required on the asset denominated in the same currency over the aggregate exercise value of the put option.

c) Long currency call – short asset in the same currency combination

Where a currency call option is carried long in a client's account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the sum of:

i) 100% of the market value of the call option; and

ii) the lesser of

A) the aggregate exercise value of the call option; and

B) the normal credit required on the short asset.

d) Long currency put – long asset in the same currency combination

Where a currency put option is carried long in a client's account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the lesser of:

i) the normal margin required on the asset denominated in the same currency; and

ii) the excess of the combined market value of the asset denominated in the same currency and the put option over the aggregate exercise value of the put option.

Section 9651 - 9700
Capital Requirements on Currency-Related Derivatives

9651 Exchange Traded Currency Options – General
(00.00.05)

a) With respect to an approved participant account, a market maker account, a restricted trading permit holder account for which a clearing approved participant has issued a letter of authorization or a sponsor account, the Bourse has established certain charges against capital;

b) for spreads, the long position may expire before the short position;

c) for any short position carried for a client or non-client account where the account has not provided required margin, any shortfall must be charged against the approved participant's capital;

d) where an approved participant account both currency options issued by the Canadian Derivatives Clearing Corporation (CDCC) and currency options issued by the Options Clearing Corporation (OCC) that have the same underlying currency, the OCC options may, for the purpose of this section, be considered to be equivalent to CDCC options when calculating the capital requirements applicable to an approved participant;

e) from time to time the Bourse may impose special capital requirements with respect to particular currency options or particular positions in such options;

f) for the purposes of the present section, the "published spot risk margin rate" for a currency means the rate published and modified from time to time by the Investment Dealers Association of Canada.

9652 Long Currency Option Positions
(00.00.05)

For approved participant accounts, the capital required for long currency options must be the sum of:

i) where the period to expiry is greater or equal to nine months, 50% of the option's time value, 100% of the option's time value otherwise; and

ii) the lesser of

A) the normal capital required on the underlying currency; or

B) if any, the in-the-money value associated with the option.

For the purpose of the present article, "the option's time value" means any excess of the market value of the option over the in-the-money value of the option.

9653 Short Currency Option Positions
(00.00.05)

The minimum capital required which must be maintained in respect of a currency option carried short in an approved participant account must be:

i) a percentage of the market value of the underlying currency determined by using the published spot risk margin rate for this currency; minus

ii) any out-of-the-money amount associated with the option.

9654 Covered Currency Option Positions
(00.00.05)

a) No capital is required for a currency call option carried short in an approved participant account, where this option is covered by the deposit of an escrow receipt. The underlying currency deposited in respect of such options shall then be deemed to not have any value for capital purposes.

Evidence of a deposit of the underlying currency shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation;

b) no capital is required for a currency put option carried short in an approved participant account which is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the approved participant. The acceptable government securities held on deposit:

i) must be government securities

A) which are acceptable forms of margin for the clearing corporation; and

B) which mature within one year of their deposit; and

ii) shall not be deemed to have any value for capital purposes.

The aggregate exercise value of the short currency put options must not be greater than 90% of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

c) no capital is required for a currency put option carried short in an approved participant account if the approved participant has obtained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Bourse, and is:

i) a bank which is a Canadian chartered bank or a Quebec savings bank; or

ii) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of at least $5,000,000;

provided that the letter of guarantee certifies that the bank or trust company

iii) holds on deposit for the account of the approved participant cash in the full amount of the aggregate exercise value of the put option and that such amount will be paid to the clearing corporation against delivery of the currency underlying the put option; or

iv) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put option against delivery of the put option underlying currency;

and provided further that the approved participant has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

9655 Currency Option Spreads and Combinations
(00.00.05)

a) Currency call spreads and put spreads

Where an approved participant account contains one of the following spread positions:

- currency long call option and currency short call option; or
- currency long put option and currency short put option;

the minimum capital required must be the lesser of

i) the capital required on the short option; or

ii) the spread loss amount, if any, that would result if both options were exercised.

b) Currency short call – short put spreads

Where a currency call option is carried short for an approved participant's account and the account is also short a currency put option on the same number of units of trading on the same underlying currency, the minimum capital required must be the greater of:

i) the greater of

A) the capital required on the call option; or

B) the capital required on the put option;

and

ii) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.

c) Currency long call – long put spreads

Where a currency call option is carried long for an approved participant’s account and the account is also long a currency put option on the same number of units of trading on the same underlying currency, the minimum capital required must be the lesser of:

i) the sum of

A) the capital required for the call option; and

B) the capital required for the put option;

and

ii) the sum of

A) 100% of the market value of the call option; plus

B) 100% of the market value of the put option; minus

C) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option.

d) Currency long call – short call – long put

Where a currency call option is carried long for an approved participant's account and the account is also short a currency call option and long a currency put option on the same number of units of trading on the same underlying currency, the minimum capital required must be:

i) 100% of the market value of the long call option; plus

ii) 100% of the market value of the long put option; minus

iii) 100% of the market value of the short call option; plus

iv) the greater of

A) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; or

B) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in iv) is negative, this amount may be applied against the capital required.

9656 Currency Options and Assets Denominated in the Same Currency Combinations
(00.00.05)

a) Short currency call – long asset in the same currency combination

Where a currency call option is carried short in an approved participant's account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the lesser of:

i) the normal capital required on the asset denominated in the same currency; and

ii) any excess of the aggregate exercise value of the call option over the normal loan value of the asset denominated in the same currency.

The market value of the short call option may be used to reduce the capital required on the long asset, but in no event can the capital required on this asset be less than zero.

b) Short currency put – short asset in the same currency combination

Where a currency put option is carried short in an approved participant’s account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the lesser of:

i) the normal capital required on the underlying interest; and

ii) any excess of the normal capital required on the asset denominated in the same currency over the in-the-money value, if any, of the put option.

The market value of the short put option may be used to reduce the capital required on the short asset, but in no event can the capital required on this asset be less than zero.

c) Long currency call – short asset in the same currency combination

Where a currency call option is carried long in an approved participant’s account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the sum of:

i) 100% of the market value of the call option; and

ii) the lesser of

A) any out-of-the-money value associated with the call option; or

B) the normal capital required on the short asset.

Where the call option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.

d) Long currency put – long asset in the same currency combination

Where a currency put option is carried long in an approved participant’s account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the lesser of:

i) the normal capital required on the asset denominated in the same currency; and

ii) the excess of the combined market value of the asset denominated in the same currency and the put option over the aggregate exercise value of the put option.

Where the put option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.