



**CIRCULAR**  
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**MARGIN REQUIREMENTS FOR BONDS WITH EMBEDDED OPTIONS  
ADDITION OF ARTICLE 7215 TO RULE SEVEN**

The Executive Committee of Bourse de Montréal Inc. (the “Bourse”) approved the addition of article 7215 to Rule Seven of the Bourse, which concerns margin and capital requirements for bonds with embedded options. These amendments are effective immediately.

The bonds with embedded options that are affected are callable bonds, retractable bonds and extendible bonds. Until now, Rule Seven of the Bourse, for margin calculations, did not take into consideration the unique characteristics of bonds with embedded options, and treated them as plain-vanilla bonds. Therefore, it was deemed appropriate to set capital and margin requirements for bonds with embedded options relative to their risks for both uncovered and hedged positions.

The addition of article 7215 to the Rules of the Bourse allows approved participants to use the callable date, the retractable date or the extendible date associated with a bond with embedded option in determining the term to maturity to establish the margin required when the price suggests the option will likely be exercised. Article 7215 also provides definitions for the terms used in it.

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**7215 Maturity Date for Bonds with Embedded Options**  
(28.04.03)

A) For the purposes of the present article:

**Callable Debt Security** means a security which allows the issuer to redeem the security at a fixed price (the call price), subject to the call protection period.

**Call Protection Period** means the period of time during which the issuer cannot redeem a callable debt security.

**Extendible Debt Security** means a security which allows the holder of the security, during a fixed time period, to extend the maturity date of the security to the extension maturity date, and to change the principal amount of the security to a fixed percentage (the extension factor) of the original principal amount.

**Extension Election Period** means the period of time during which the holder may elect to extend the maturity date and change the principal amount of an extendible debt security.

**Retractable Debt Security** means a security which allows the holder of the security, during a fixed time period, to retract the maturity date of the security to the retraction maturity date, and to change the principal amount of the security to a fixed percentage (the retraction factor), of the original principal amount.

**Retraction Election Period** means the period of time during which the holder may elect to retract the maturity date and change the principal amount of a retractable debt security.

B) A callable debt security may, at the approved participant's election, be deemed to have a maturity date equal to:

- i) the original maturity date, if the market price of the callable debt security is trading at or below 101% of the call price; or
- ii) the first business day after the call protection period, if the market price of the callable debt security is trading above 101% of the call price.

C) An extendible debt security may, at the approved participant's election, be deemed to have a maturity date equal to:

- i) the original maturity date, if the extension election period has not expired and the market value of the extendible debt security is trading at or below the extension factor multiplied by the current principal amount; or
- ii) the extension maturity date, if the extension election period has not expired and the market value of the extendible debt security is trading above the extension factor multiplied by the current principal amount; or
- iii) the original maturity date, if the extension election period has expired.

- D) A retractable debt security may, at the approved participant's election, be deemed to have a maturity date equal to:
- i) the original maturity date, if the retraction election period has not expired and the market value of the retractable debt security is trading at or above the retraction factor multiplied by the current principal amount; or
  - ii) the retraction maturity date, if the retraction election period has not expired and the market value of the retractable debt security is trading below the retraction factor multiplied by the current principal amount; or
  - iii) the original maturity date, if the retraction period has expired.