Bourse de Montréal Inc.

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CIRCULAR
April 29, 2004

AVERAGE PRICE ACCOUNTS – MARGIN REQUIREMENTS

This circular is a revised version of circular no. 245-93 published on November 4, 1993. Corrections have been made to clarify the margin treatment of average price accounts when an approved participant is accumulating securities for a non-contingent order. The circular also addresses some questions concerning confirmations to clients regarding the use of average price or accumulation accounts in which the approved participant accumulates securities in order to give the client a confirmation at one average price.

- **CONFIRMING THE UNWINDING TRADE TO THE CLIENT**

  Questions have been raised as to whether the client's confirmation must be made “as of” the dates of each trade. Where the client requests only one confirmation, some approved participants have adopted as a practice to confirm the transactions as of the date of the transfer of the securities position from the average price account to the client account. However, this practice may lead to believe that the trade (at the average price) was executed at a price different from the one that was prevailing at the time the transaction was made.

  It is preferable to give clients a confirmation showing each individual trade. However, it is acceptable to give a client a confirmation only as of the date of the securities transfer to the client account provided that the client has requested a single confirmation.

  In either case, approved participants must keep records of each individual trade and of the transfer. The relevant information must be made available to the client or to the self-regulatory organizations on request.

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- **MARGIN TREATMENT CONTINGENT ORDER**

  If an approved participant is accumulating securities based on an indication of interest from the client or an order with a contingency that has not occurred (e.g., an "all or none" order), then the client is under no obligation to purchase the securities. In this case, the approved participant is at risk while taking on the position (i.e., the client is not the beneficial owner of the securities while in inventory) and must margin the position as inventory (on a trade date basis) until the order is completed and contracted to the client account.

- **MARGIN TREATMENT DURING ACCUMULATION**

  If the approved participant is accumulating securities on a non-contingent order in which the client will accept all securities up to the full amount of his order (e.g., any partial order), then the client is the beneficial owner of the securities while being accumulated. In this case, all trade date positions in the average price account must be margined[1] commencing on the regular settlement date of the first accumulation amount purchased. Margin must thereafter continue to apply on all trade date positions until the accumulated position held on behalf of the client in the average account is transferred to the client account by processing a ticket at the average price and the trade confirmation is issued.

- **MARGIN TREATMENT ONCE THE ACCUMULATED POSITION TRANSFERRED TO CLIENT**

  On the date the trade confirmation is issued to the client (trade date), client margin must be determined in accordance with the approved participant's stated policy for margining client accounts (i.e. on either a trade date or settlement date basis).

For further information, please contact Eric Bernard, Financial Analyst, at (514) 871-4949, extension 373 or by e-mail at ebernard@m-x.ca.

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[1] Using the relevant client account margin requirements for the client who is either an acceptable institution, acceptable counterparty, regulated entity or other counterparty.