Bourse de Montréal Inc.

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CIRCULAR
May 17, 2004

MARGIN AND CAPITAL REQUIREMENTS FOR CAPITAL TRUST SECURITIES

AMENDMENTS TO ARTICLES 7202, 7204 AND 7213

The Executive Committee of Bourse de Montréal Inc. (the "Bourse") approved amendments to articles 7202, 7204 and 7213 of the Rules of the Bourse, which deal with margin and capital requirements for capital trust securities. These amendments are effective immediately.

Up until now, most capital trust securities were subjected to a margin rate of 50 percent. This rate being considered too high, amendments were made to the rules in order to establish specific capital and margin requirements for capital trust securities that better reflect their market risk. As a result, each capital trust security with the following characteristics:

- original issuance of the security generated Tier 1 capital for a financial institution;
- any security issued by this financial institution is included on the List of Securities eligible to a reduced margin rate (published periodically by the Bourse in a circular); and
- the financial institution is under the regulatory oversight of the Office of the Superintendent of Financial Institutions of Canada,

will, from now on, qualify for a 25 percent margin rate for approved participant positions and for a 30 percent margin rate for client positions.

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

Joëlle Saint-Arnault
Vice-president, Legal Affairs and Secretary

Encl.

Circular no.: 066-2004
Amendment no.: 005-2004

7202 Listed Securities
(15.12.86, 30.09.87, 18.06.88, 01.04.93, 11.02.00, 29.04.02, 16.09.02, 01.05.03, 17.05.04)

1) The margins required on securities including rights and warrants (other than bonds and debentures) listed on any of the recognized exchanges in Canada and in the United States, on the stock list of The London Stock Exchange and on the first section of the Tokyo Stock Exchange are as follows:

Long Positions	**Margin Required**
a) Securities trading at $2.00 or more	50% of market value
b) Securities trading between $1.75 and $1.99	60% of market value
c) Securities trading between $1.50 and $1.74	80% of market value

d) Securities selling under $1.50, securities of companies designated as Capital Pool Companies on the TSX Venture Exchange and securities of companies classified as Tier 3 or inactive Tier 2 issuers on the TSX Venture Exchange may not be carried on margin.

Short Positions	**Credit Required**
a) Securities trading at $2.00 or more	150% of market value
b) Securities trading between $1.50 and $1.99	$3.00 per share
c) Securities trading between $0.25 and $1.49	200% of market value
d) Securities trading at less than $0.25	Market value plus $0.25 per share

On Index Participation Units (IPU), the margin, in the case of a long position, is the floating margin rate percentage (calculated for the S&P/TSE 60 IPU by the Bourse) multiplied by the market value of the S&P/TSE 60 IPU. The margin, in the case of a short position, is 100% plus the floating margin rate percentage (calculated for the S&P/TSE 60 IPU by the Bourse) multiplied by the market value of the S&P/TSE 60 IPU.

On a basket of S&P/TSE 60 Index securities (complying with article 11280) the margin, in the case of a long position, is the floating margin rate percentage (calculated for a basket of S&P/TSE 60 Index securities by the Bourse) plus the calculated incremental basket margin rate for the qualifying basket of S&P/TSE 60 Index securities multiplied by the market value of the basket of S&P/TSE 60 Index securities. The margin, in the case of a short position, is 100% plus the floating margin rate percentage (calculated for a basket of S&P/TSE 60 Index securities by the Bourse) plus the calculated incremental basket margin rate for the qualifying basket of S&P/TSE 60 Index securities, multiplied by the market value of the basket of S&P/TSE 60 Index securities.

On Index Participation Units, the margin, in the case of a long position, is the floating margin rate percentage (calculated for the S&P/TSE sectorial Index Participation Units by the Bourse) multiplied by the market value of the S&P/TSE sectorial Index Participation Units. The margin, in the case of a short position, is 100% plus the floating margin rate percentage (calculated for the S&P/TSE sectorial Index Participation Unit by the Bourse) multiplied by the market value of the S&P/TSE sectorial Index Participation Units.

On a basket of S&P/TSE sectorial Index securities (complying with article 11601 of the Rules) the margin, in the case of a long position, is the floating margin rate percentage (calculated for a basket of S&P/TSE sectorial Index securities by the Bourse), multiplied by the market value of the basket of S&P/TSE sectorial Index securities. The margin, in the case of a short position, is 100% plus the floating margin rate percentage (calculated for a basket of S&P/TSE sectorial Index securities by the Bourse), multiplied by the market value of the basket of S&P/TSE sectorial Index securities.

For the purpose of the present article, the floating margin rate percentage is determined by the Bourse, in accordance with the following methodology:

The sum of:

a) the product of the three following elements:

   i) the maximum standard deviation of percentage fluctuations in daily settlement values over the most recent 20, 90 and 260 business days;

   ii) three (for a 99% confidence interval); and

   iii) the square root of 2 (for two days coverage);

plus

b) 0.50% (representing a cushion);

rounded up to the next quarter percent.

2) Securities eligible to a reduced margin rate

   The margin required is 30% of the market value on long positions and the credit required is 130% of the market value on short positions if such securities are:

   i) on the list of securities eligible to a reduced margin rate as approved by a recognized self-regulatory organization and such securities continue to be traded at $2.00 or more;

   ii) securities against which options issued by the Options Clearing Corporation are traded;

   iii) convertible into securities that qualify under subparagraph i) or subparagraph ii);

   iv) non-convertible preferred and senior shares of an issuer any of whose securities qualify under subparagraph i); or

   v) securities whose original issuance generated Tier 1 capital for a financial institution any of whose securities qualify under subparagraph i) and the financial institution is under the regulatory oversight of the Office of the Superintendent of Financial Institutions of Canada.

   For the purpose of the present paragraph 2) the Bourse and the Investment Dealers Association of Canada are designated as recognized self-regulatory organizations.

3) The margin required in respect of positions in warrants issued by a Canadian chartered bank and which are listed on any recognized stock exchange or other listing organization referred to above and

which entitle the holder to purchase securities issued by the Government of Canada or any province thereof must be the greater of:

a) The margin otherwise required by paragraph 1) of the present article according to the market value of the warrant; or

b) 100% of the margin required in respect of the security to which the holder of the warrant is entitled upon exercise of the warrant. However, in the case of a long position, the amount of margin need not exceed the market value of the warrant.

4) For the purpose of the present article, "inactive Tier 2" securities are securities of companies classified as Tier 2 issuers that are considered to be inactive by the TSX Venture Exchange. Such securities are identifiable through the use of unique trading symbols.

7204 Bonds, Debentures, Treasury Bills and Notes
(01.07.86, 04.02.87, 15.09.89 30.04.91, 09.10.91, 01.03.93, 01.05.93, 05.07.93, 01.04.93, 27.05.97, 18.02.98, 29.08.01, 17.05.04)

(...)

GROUP V Trust and mortgage loan companies

The margins required on commercial and corporate bonds, debentures and notes (not in default) and non negotiable and non transferable trust company and mortgage loan company obligations registered in the approved participant's name, maturing in the time periods indicated below, are as follows :

	Margin Required
within 1 year	3% of market value a) and b)
over 1 year to 3 years	6% of market value a)
over 3 years to 7 years	7% of market value a)
over 7 years to 11 years	10% of market value a)
over 11 years	10% of market value a)

a) i) if convertible and trading over par, apply the above rates on par value and add 50% (30% for clients' accounts, 25% for market-makers, specialists and approved participants of the Bourse when convertible into shares eligible for a reduced margin rate as provided for in paragraph 2 of article 7202 of the Rules of the Bourse) of the excess of market value over par when convertible into securities acceptable for margin purposes or 100% of the excess of market value over par when convertible into securities not acceptable for margin purposes with a minimum addition to the above rates of 10% of par value, whether convertible into securities acceptable or not for margin purposes. If convertible and selling at or below par, add 10% of par value to the quoted rates;

(…)

7213 Exceptions to Margin Rules
(30.11.86, 15.12.86, 01.06.88, 01.01.92, 15.01.93, 10.05.93, 01.04.93, 25.02.94, 12.03.97, 21.12.98, 29.08.01, 18.07.03, 01.01.04, 17.05.04)

The following are exceptions to the margin rules as set out in this section:

1) No margin is required on securities under the following conditions:

   a) securities which have been formally called for cash redemption;

   b) securities for which a legal and binding cash offer has been made provided that:

      i) all conditions of the offer have been met;

      ii) securities are not carried for an amount in excess of the price offered.

   When the legal and binding cash offer is for less than 100% of the issued and outstanding securities and all conditions of the offer have been met, the margin required must be adjusted prorata to shares purchased by the offeror on the number of shares deposited;

   c) deposit certificates issued by a Canadian chartered bank or a trust company in Canada within the definition of an Acceptable Institution or an Acceptable Counterparty and having a 24-hour call feature that would not reduce the principal amount received on redemption if applicable.

2) Margin requirements for potential liability under an underwritten rights or warrants agreement.

   Where an underwriter has a commitment to purchase securities in connection with a rights or warrants offering, such commitment must be margined at the following rates:

   a) if the market value of the security which can be acquired pursuant to the exercise of the rights or warrants is below the subscription price, the underwriter's commitment must be valued at the current market price for the security and the margin rates applicable to the security under this section must be applied;

   b) if the market value of the security is equal to or greater than the subscription price, the commitment must be margined at rates calculated on the subscription price, equal to the following percentage of the margin rate applicable to the security under this section:

   50%, where market value is 100% to 105% of the subscription price;

   30%, where market value is more than 105% but not more than 110% of the subscription price;

   10% where market value is more than 110% but not more than 125% of the subscription price;

   no margin is required where market value is more than 125% of the subscription price.

3) Securities eligible to a reduced margin rate

   The margin required is 25% of the market value if such securities held by approved participant are:

i) on the list of securities eligible to a reduced margin rate as approved by a recognized self-regulatory organization and such securities continue to trade at $2.00 or more;

ii) securities against which options issued by the Options Clearing Corporation are traded;

iii) convertible into securities that qualify under the subparagraph i) or subparagraph ii);

iv) non-convertible preferred and senior shares of an issuer any of whose securities qualify under subparagraph i); or

v) securities whose original issuance generated Tier 1 capital for a financial institution any of whose securities qualify under subparagraph i) and the financial institution is under the regulatory oversight of the Office of the Superintendent of Financial Institutions of Canada.

For the purpose of the present paragraph 3), the Bourse and the Investment Dealers Association of Canada are designated as recognized self-regulatory organizations.

4) Whenever the Bourse decides not to open for trading any additional options of the class covering that underlying security according to article 6605, the margin rate as permitted in paragraph 3) of this article remains in force up to the expiration of the last series of options.

5) The margin rate required on securities approved by the Floor Committee is 25% of their market value, if maintained in a market-maker's or a specialist's account that has a principal or a temporary appointment on those securities. Securities trading at $2 or more during the preceding three months are eligible to this reduced margin rate. The list of eligible securities must be reviewed quarterly by the Floor Committee and only securities mentioned on such list are subject to the reduced margin rate.

This reduced margin rate is however applicable on a maximum market value of $50,000 per security, per approved participant, if during the preceding three months the total trading volume on all exchanges recognized for margin purposes and on NASDAQ is equal to or lower than 90,000 shares, or $100,000 if during the preceding three months the total trading volume on all exchanges recognized for margin purposes and on NASDAQ exceeds 90,000 shares. The margin required on the excess of those amounts must be calculated as required by articles 7201 and following. The reduction in the amount of margin required, as opposed to the margin required by articles 7201 and following, for the aggregate of all market-maker's and specialist's accounts, must never exceed 15% of the clearing member's net allowable assets.

6) For the purpose of this section, a "control block" means a sufficient number of any securities of an issuer of securities to affect materially the control of that issuer. In the absence of evidence to the contrary, any holding by any person, company or combination of persons or companies of more than 20% of the outstanding voting securities of an issuer is deemed to affect materially the control of that issuer. Any security which is part of a control block has no loan value for margin calculation purposes, except to the extent that the control block constitutes any or all of the securities which an approved participant has an obligation or commitment to acquire, or has acquired, under a prospectus filing. In such case, the appropriate margin requirement provided for in article 7224 of the Rules applies as long as the criteria in said article have been met.

7) Where the account of an approved participant, a market-maker, a specialist or a restricted trading permit holder contains preferred shares for which the principal and dividends are unconditionally

guaranteed by the Canadian government or a provincial government, the margin rate for these securities must be 25% of their market value.

8) a) For the purposes of sub-paragraphs b) to f) of this paragraph, the term "floating rate preferred share" means a preferred share, by the terms of which the rate of dividend fluctuates at least quarterly, in tandem with a prescribed short-term interest rate. The sub-paragraphs b) to f) of this paragraph are applicable only to an account of a market-maker, specialist, a restricted trading permit holder or inventory account of an approved participant.

b) Margin on floating rate preferred shares of companies with securities which are eligible to a reduced margin rate under paragraph 2 of article 7202 of the Rules of the Bourse must be provided at the rate of 10% of the market value of such securities.

c) The margin rate which must be provided on floating rate preferred shares which qualify for margin under this paragraph but which are of companies which do not have securities which are eligible to a reduced margin rate under paragraph 2 of article 7202 of the Rules of the Bourse, is 25% of the market value of such securities.

d) Where the issuer is in default of payment of a dividend due on floating rate preferred shares which qualify for margin under this paragraph, margin must be provided at the rate of 50% of the market value of such securities.

e) Where the floating rate preferred shares of companies with securities which are eligible to a reduced margin rate under paragraph 2 of article 7202 of the Rules of the Bourse are convertible and are selling over par, margin must be provided at the rate of 10% of the par value of such securities plus 25% of the excess of market value of such securities over par.

f) Where the floating rate preferred shares of companies which do not have securities which are eligible to a reduced margin rate under paragraph 2 of article 7202 of the Rules of the Bourse, but are convertible and are selling over par, margin must be provided at the rate of 25% of the par value of such securities plus 50% of the excess of market value of such securities over par.

9) Consideration other than cash to be obtained following an offer

a) For the purpose of computing the margin on shares which are the subject of an offer, and in respect of which all conditions have been met, the margin required may be computed on the consideration, other than cash, that would be obtained upon acceptance of the offer. The margin rate to be used is the one prescribed in articles 7201 and following on the consideration to be obtained.

b) Where the offer is made for less than 100% of the issued and outstanding shares, the preceding principle must be applied pro rata in the same proportion as the offer.

10) Bank warrants for governments securities

Where the account of a market maker, specialist or member contains bank warrants for government securities the margin rate must be the one required in respect of the securities to which the holder of the warrant is entitled upon exercise of the warrant provided that, in the case of a long position, margin need not exceed the market value of the warrant.

For the purpose of this paragraph, bank warrants for government securities means warrants issued by a Canadian chartered bank which are listed on any recognized stock exchange or other listing organization referred to in article 7202 paragraph 1) and which entitle the holder to purchase securities issued by the Government of Canada or any province thereof.

11) Margin requirements for PEACs and SPECs

a) Simple positions

The margin required on a simple long or short position in a PEAC must be determined by using the same rates as those provided for in paragraph 2 of article 7202. However, if the underlying common stock has been approved by the Canadian Clearing Corporation of Derivative Products as being option eligible, then the margin rate must be 30% for long positions and the credit required must be 130% for short positions.

The margin required on a simple long or short position in a SPEC when held in a customer account, must be determined by applying the margin requirements provided for in articles 11202 and 11203 as if it was a stock option held in a customer account.

The margin required on a simple long or short position in a SPEC held in the account of a member, market-maker, specialist or restricted permit holder must be determined by applying the margin requirements provided for in article 11227 as if it was a stock option held in the account of one of the above mentioned person.

b) Paired positions

i) Long underlying common stock - Short SPEC

In the case of clients' accounts, the margin required on a long position in the underlying common stock which is paired with a short position in the corresponding SPEC must be the margin currently required on the common stock as provided by paragraph 2 of article 7202. However, in the case where the market value of the common stock exceeds the termination claim of the SPEC, the margin must then be determined by using the termination claim instead of the market value of the common stock.

In the case where such positions are held in accounts of members, market-makers, specialists or restricted permit holders, the margin required must be equal to 25% of the market value of the long position less the market value of the SPEC. However, margin required must not be less than zero.

ii) Long underlying common stock - Short PEAC

The margin required on a long position in the underlying common stock which is paired with a short position in the corresponding PEAC must be the greater of the margin required on the long position or the margin required on the short position.

iii) Long SPEC - Short underlying common stock

In the case of clients' accounts, the margin required on a long position in the SPEC paired with a short position in the underlying common stock must be equal to the termination claim of the

SPEC minus the difference between the market values of the underlying common stock and of the SPEC.

In the case where such a position is held in the account of a member, market-maker, specialist or restricted permit holder, the margin required must be equal to the market value of the SPEC plus the lesser of the amount by which the SPEC is out of the money or 25% of the market value of the underlying common stock. If the amount of the SPEC is in the money, then the margin required must be equal to the market value of the SPEC less the amount by which it is in the money. However, the margin required must not be less than zero.

iv) Long PEAC - Short underlying common stock

The margin required on a long position in a PEAC paired with a short position in the underlying common stock must be equal to the greater of the margin required on the long or short position.

v) Long PEAC and SPEC - Short underlying common stock

The margin required on a long position in a PEAC and a SPEC paired with a short position in the underlying common stock must be equal to the difference between the market values of the long position and the short position. For the purposes of this calculation, the difference must be determined by using the bid value for each of the long and short positions.

vi) Long underlying common stock - Short PEAC and SPEC

The margin required on a long position in the underlying common stock which is paired with a short position in the PEAC and the SPEC must be equal to the greater of the margin required on the long position or on the short positions.

c) Positions held in accounts of members, market-makers, specialists and restricted permit holders

For the purposes of subparagraphs a) and b) above and when not specified, the margin rate applicable to positions held by a member, market-maker, specialist or restricted permit holder must be the rate provided for in paragraphs 4, 7 and 8 of present article.

12) Maximum Margin Required for Convertible Securities

The margin required for a security that is currently convertible or exchangeable into another security (the "underlying security") need not exceed the sum of:

i) the margin required for the underlying security; and

ii) any excess of the market value of the convertible or exchangeable security over the market value of the underlying security.