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

CIRCULAR
May 8, 2008

REQUEST FOR COMMENTS

PAIRING FOR MARGIN PURPOSES OF POSITIONS IN STRIPPED COUPONS AND/OR RESIDUAL DEBT SECURITIES

AMENDMENTS TO ARTICLE 7204, GROUP XI

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to article 7204, Group XI, of the Rules of the Bourse, which deal with stripped coupons and residual debt securities. The main purpose of these amendments is to set, for each pairing of positions implying stripped coupons and/or residual debt securities, a prescribed margin representing its effective risk; and also, to clarify the regulatory text of this Section of article 7204.

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.: 070-2008

Tour de la Bourse
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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 article 7204, Group XI, 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”.

PAIRING FOR MARGIN PURPOSES OF POSITIONS IN STRIPPED COUPONS AND/OR RESIDUAL DEBT SECURITIES

AMENDMENTS TO ARTICLE 7204 – MARGIN REQUIREMENTS APPLICABLE TO POSITIONS IN STRIPPED COUPONS AND/OR RESIDUAL DEBT SECURITIES (GROUP XI)

1. SUMMARY

A CURRENT RULES

In its current version, the section of article 7204 entitled "GROUP XI – Stripped Coupons and Residual Debt Securities" allows the pairing for margin purposes of positions in government debt securities with positions in stripped coupons and of positions in government debt securities with positions in residual debt securities, subject to certain conditions. However, this section of article 7204 remains totally silent for what regards the eligibility to a reduced margin when there is a pairing of positions in stripped coupons, of positions in residual debt securities and of positions in stripped coupons with positions in residual debt securities.

B THE ISSUE

Given the absence of specific regulatory provisions regarding the calculation of applicable margin when there is a pairing of the above-mentioned positions, approved participants cannot benefit of any margin reduction for the pairing of these positions and must calculate the margin of each position as if it was an outright single position. As a result, the margin requirement is higher than if the pairing of these positions for margin purposes was permitted. This higher margin does not reflect the reduced risk that is represented by the pairing of these positions, such risk being normally represented by a lower margin.

C OBJECTIVES

The main objective of the amendments proposed to Group XI of article 7204 of the Rules of the Bourse is to set for each pairing of positions a prescribed margin representing its effective risk by allowing:

- the pairing for margin purposes of positions in stripped coupons;
- the pairing for margin purposes of positions in residual debt securities;
- the pairing for margin purposes of positions in stripped coupons with positions in residual debt securities.

It is also proposed, as a secondary objective, to clarify the regulatory text of this Section of article 7204.

D IMPACT OF THE PROPOSED REGULATORY AMENDMENTS

The purpose of the proposed amendments is to promote an efficient use of capital and to set the prescribed margin at levels that are representative of the risk of the paired positions. The proposed amendments will have no negative impact on the market structure, on firms that are approved participants of the Bourse and on those that are not approved participants, on competition or on the cost of compliance.

II. DETAILED ANALYSIS

A CURRENT RULES, BACKGROUND AND PROPOSED AMENDMENTS

In its current version, the section of article 7204 of Rule Seven entitled "*GROUP XI – Stripped Coupons and Residual Debt Securities*" allows, for margin calculation purposes, the pairing of positions in ordinary bonds with positions in stripped coupons and the pairing of positions in ordinary bonds with positions in residual debt securities, provided that such pairing satisfies the conditions set by the Rules. However, this Section is totally silent for what regards the eligibility to a reduced margin of pairing of positions in stripped coupons, of positions in residual debt securities and of positions in stripped coupons with positions in residual debt securities. These various pairings represent a reduced risk when compared with unhedged positions in these same instruments. Given this reduced risk, such pairings should therefore be eligible to a reduced margin. The proposed amendments apply only to debt securities issued or guaranteed by the Government of Canada or by a Canadian province. Also, some conditions must be satisfied in order for the proposed rules respecting the pairing of positions to be applicable.

Pursuant to the proposed amendments, in the case of pairings involving long and short positions in debt securities (bonds, debentures, stripped coupons or residuals) issued or guaranteed by the Government of Canada or based on such securities, the prescribed margin will be equal to "*the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, respectively*." The same would apply to pairings involving long and short positions in debt securities issued or guaranteed by a Canadian province or based on such securities.

Furthermore, it is also proposed that, in the case of pairings involving long and short positions in debt securities issued or guaranteed by the Government of Canada and by a Canadian province or based on such securities, the prescribed margin would be equal to "*50% of the total margin required for both positions otherwise determined in the Rules.*" The higher margin requirement is to cover the additional risks related to the pairing of positions that are essentially combinations of federal and provincial debt instruments.

In summary, the Bourse is proposing to amend the "*GROUP XI – Stripped Coupons and Residual Debt Securities*" section of article 7204 of Rule Seven of the Bourse to recognize pairings of positions in residual debt securities, of positions in stripped coupons and of positions in residual debt securities with positions in stripped coupons.

B OTHER ISSUES AND ALTERNATIVES CONSIDERED

No other alternative was considered since the purpose of the proposed amendments is to set requirements for specific pairings of positions that are not currently recognized in the Rules of the Bourse.

C COMPARISON WITH SIMILAR PROVISIONS

Many countries, and more particularly the United States and the United Kingdom, have put in place restrictions on stripping bonds. In the United Kingdom, only bonds issued by the United Kingdom Government are eligible to be stripped while in the United States only bonds issued by the Federal Government or by its agencies are eligible to stripping. Generally, the pairing of positions in these debt securities is only allowed in strict circumstances that may necessitate the use of complex financial models. The United States and the United Kingdom do not have descriptive rules similar to those that exist or will eventually exist in Canada in this regard. Since Canada has a much more developed stripped bond market structure, it is much more important for Canada than for other major markets such as the United States or the United Kingdom to have clear and specific rules allowing approved participants and their clients to better manage risks and promote an efficient use of capital.

D IMPACT OF PROPOSED AMENDMENTS ON SYSTEMS

It is expected that the proposed amendments will have no impact on the financial market structure, on competition, on compliance costs and on compliance with other regulations. The Investment Dealers Association of Canada (IDA) has already obtained the approval of its Board of Directors for the proposed amendments and has submitted them to the Canadian regulatory authorities for approval. The implementation of these amendments will take place once the Bourse and the IDA will have both received the approval of their respective recognizing regulators.

E INTEREST OF FINANCIAL MARKETS

The Bourse considers that the proposed amendments will not prejudice the interest of financial markets.

F PUBLIC INTEREST OBJECTIVES

The objectives of the proposed amendments are to facilitate the margin call process and to enhance transparency, efficiency and fairness of the market while maintaining an open and loyal competition in securities transactions in general. The proposed amendments will not contribute to the creation of an unfair discrimination between clients, issuers, dealers, approved participants or other persons. They will not impose an unnecessary or inappropriate burden on the furtherance of the above-mentioned objectives. Given the importance of the proposed amendments, it has been considered that these are of public interest.

III. 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. Once the approval of the Special Committee has been obtained, the proposed amendments, if they relate to capital and margin matters, are subsequently submitted to the Rules and Policies Committee of the Bourse for further approval. Once the approval process is completed, the proposed amendments, including this document, are simultaneously published by the Bourse for a 30-day comment period and submitted to the Autorité des marchés financiers for approval and to the Ontario Securities Commission for information.

IV. SOURCES

- Article 7204 – Bonds, Debentures, Treasury Bills and Notes – GROUP XI - Stripped Coupons and Residual Debt Securities – Rule Seven of Bourse de Montréal Inc.

- Strip Bonds Information Centre www.stripbonds.info

RULE SEVEN
OPERATIONS OF APPROVED PARTICIPANTS

Section 7201 - 7250
Margins

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, 13.09.05, 28.09.07, 01.05.08, 00.00.08)

GROUP I Governments of Canada, United States, United Kingdom and other foreign national governments

The margins required on bonds, debentures, Treasury bills, and other securities of or guaranteed by the Government of Canada, of the United States, of the United Kingdom and of any other national foreign government (provided such foreign government securities are currently rated Aaa or AAA by Moody's Investors Service Inc. or Standard & Poor's Corporation, respectively), and maturing (or called for redemption) in the periods indicated below, are as follows:

	Margin Required
1 year or less	1% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365.
over 1 year to 3 years	1% of market value
over 3 years to 7 years	2% of market value
over 7 years to 11 years	4% of market value
over 11 years	4% of market value

GROUP II Provinces of Canada and International Bank of Reconstruction and Development

The margins required on bonds, debentures, treasury bills and other securities of or guaranteed by any Province of Canada, bonds of the International Bank of Reconstruction and Development, and bonds and debentures guaranteed by the deposit in trust of a grant payable by a province in Canada covering the principal and the interest maturing, or called for redemption in the time periods indicated below are as follows:

	Margin required
1 year or less	2% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year to 3 years	3% of market value

over 3 years t 7 years	4% of market value
over 7 years to 11 years	5% of market value
over 11 years	5% of market value

GROUP III Municipal, school and hospital corporations and religious orders

Margins required on bonds, debentures or notes (not in default) of or guaranteed by any municipal corporation in Canada or in the United Kingdom, maturing in the time periods indicated below, are as follows:

	Margin required
1 year or less	3% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year to 3 years	5% of market value
over 3 years to 7 years	5% of market value
over 7 years to 11 years	5% of market value
over 11 years	5% of market value

Bonds and debentures (not in default) of or guaranteed by any school corporation, religious order or hospital corporation in Canada, 5% of market value.

GROUP IV Other non-commercial bonds and debentures

The margin required on other non-commercial bonds and debentures (not in default), is equal to 10% of market value.

GROUP V Corporations and trust and mortgage loan companies – non-negotiable and non-transferable debt securities

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, subject to the provisions of paragraphs a1) to 6) hereafter, as follows :

	Margin Required
1 year or less	3% of market value
over 1 year to 3 years	6% of market value

over 3 years to 7 years	7% of market value
over 7 years to 11 years	10% of market value
over 11 years	10% of market value

1) if convertible and selling over par, the margin required must be the lesser of the two following amounts:

    a) the sum of the two following elements :

        i) the par value multiplied by the above rates;

        ii) the excess of market value over the par value;

    b) the maximum margin required for a convertible security calculated pursuant to paragraph 10 of article 7213;

2) if these securities are convertible and selling at or below par, the margin required must be the above rates multiplied by the market value;

3) if these securities are selling at 50% or less of the par value and if they are rated "B" or lower by either Dominion Bond Rating Service or by Canadian Bond Rating Service, the margin required must be 50% of the market value;

4) in the case of U.S. pay securities, if selling at 50% or less of the par value and if rated "B" or lower by either Moody's or Standard & Poors, the margin required must be 50% of the market value;

5) if these securities are convertible and are residual debt instruments (zero coupon), the margin required is the lesser of the two following amounts :

    a) the greater of

        i) the margin required for a convertible debt instrument calculated pursuant to this Group V;

        ii) the margin required for a residual debt instrument (zero coupon), calculated pursuant to Group XI of this article;

    b) the maximum margin required for a convertible security calculated pursuant to paragraph 10 of article 7213;

6) where such commercial bonds, debentures and notes are debt securities of companies whose notes are acceptable notes, as defined in Group VI of the present article, then the margin requirements of this Group VI must apply.

GROUP VI Corporations and trust and mortgage loan companies – negotiable and transferable debt securities

APPENDIX B

The margins required on acceptable commercial, corporate and finance company notes, and trust company and mortgage loan company bonds, readily negotiable and transferable and maturing in the time periods indicated below are as follows:

	Margin Required
1 year or less	3% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year	apply rates for commercial and corporate bonds, debentures and notes

Acceptable commercial, corporate and finance company notes means notes issued by a company incorporated in Canada or in any province of Canada and a) having a net worth of not less than $10,000,000 or b) guaranteed by a company having a net worth of not less than $10,000,000 or c) a binding agreement exists whereby a company having a net worth of not less than $25,000,000 is obliged, as long as the notes are outstanding, to pay to the issuing company or to a trustee for the noteholders, amounts sufficient to cover all indebtedness under the notes where the borrower:

a) files annually under the applicable provincial legislation a prospectus relating to its notes which have a term to maturity of one year or less and provides to approved participants acting as authorized agents the following information in written form:

   i) disclosure of limitation, if any, on the maximum principal amount of notes authorized to be outstanding at any one time;

   ii) a reference to the bank lines of credit of the borrower or of its guarantor if a guarantee is required;

   or

b) provides to approved participants acting as authorized agents an information circular or memorandum which includes or is accompanied by the following:

   i) recent audited financial statements of the borrower or of its guarantor if a guarantee is required;

   ii) an extract from the borrower's general borrowing by-law dealing with the borrower's corporate authorization to borrow;

   iii) a true copy of a resolution of directors of the borrower certified by the borrower's secretary, and stating in substance:

      [1] the limitation, if any, on the maximum amount authorized to be borrowed by way of issues or notes;

      [2] those officers of the borrower company who may legally sign the notes by hand or by facsimile;

      [3] the denomination in which notes may be issued;

iv) where notes are guaranteed, a certified copy of a resolution of directors of the guarantor company, authorizing the guarantee of such notes;

v) a certificate of incumbency and facsimile signatures of the authorized signing officers of the borrower and its guarantor, if any;

vi) specimen copies of the note or notes;

vii) a favorable opinion from the legal counsel of the borrower regarding the incorporation, the organization and the corporate status of the borrower, its corporate capacity to issue the notes and the due authorization by it of the issuance of the notes;

viii) where notes are guaranteed, a favorable opinion from the legal counsel of the guarantor regarding the incorporation, the organization and the corporate status of the guarantor, its capacity to guarantee the notes and the due authorization, validity and effectiveness of its guarantee;

ix) a summary setting forth the following:

[1] a brief historical summary of the borrowing company and of its guarantor, if any;

[2] the purpose of the issue;

[3] a reference to the bank lines of credit of the borrowing company or of its guarantor, if a guarantee is required;

[4] the denomination in which notes may be issued.

GROUP VII Bonds in default

The margin required on bonds in default must be equal to 50% of market value.

GROUP VIII Income bonds

The margins required on income bonds and debentures on which interest has been paid in full at the stated rate for the two preceding years as required by the related trust indenture which must specify that such interest be paid if earned, are as follows:

Currently paying interest at the stated rate:

Margin required

10% of market value

Not paying interest, or paying at less than the stated rate:

Margin required

50% of market value

GROUP IX British Columbia Government guaranteed parity bonds:

Long Positions: ¼ of 1% of par value or rates prescribed under Group II above;

Short Positions: rates prescribed under Group II above.

GROUP X Floating rate debt obligations:

50% of the rates of margin otherwise required. If margin is otherwise required in respect of excess market value over par, 100% of the margin rates otherwise required must apply to the excess market value.

For the purpose of this paragraph, the term “floating rate debt obligation” means a debt instrument described in Groups I, II, III and VI of the present article and in article 7205 for which the rate of interest is adjusted at least quarterly by reference to an interest rate for periods of 90 days or less.

This paragraph is applicable only to an account of a market-maker or to inventory accounts of an approved participant.

GROUP XI Stripped Coupons and/or Residual Debt Positions~~Securities~~

1) The margin required for stripped coupons and residual debt securities, which is based on a percentage of the market value, is equal to:

   a) for securities with a term to maturity of less than 20 years, one and a half times the margin rate applicable to the debt instrument which has been stripped or to which the detached coupon or other evidence of interest relates; and

   b) for securities with a term of 20 years or more, three times the margin rate applicable to the debt instrument which has been stripped or to which the detached coupon or other evidence of interest relates.

   In determining the term to maturity of a coupon or other evidence of interest, the payment date for such interest must be considered the maturity date. Margin in respect of residual debt instruments which are convertible into other securities must be determined in accordance with Group V of this article.

2) Government debt

Where an approved participant or a client holds the paired~~a short (or long)~~ positions indicated hereafter and the following conditions are satisfied:

   i) the paired positions mature within the same time period;

   ii) the time periods are the time periods referred to in Groups I and II of this article;

   iii) the offset positions are~~in bonds or debentures~~ denominated in Canadian dollars~~issued or guaranteed by either the Government of Canada or a Province of Canada and also holds a long (or short) position in the stripped coupons or residual portion of such debt securities,~~ ;

iv) the market value of the short position is equal to the market value of the long position;

the margin required is as follows:

a) Bond or debenture and stripped coupon or residual debt positions

i) for a short (or long) position in bonds or debentures issued or guaranteed by the Government of Canada and a long or (short) position in the stripped coupon or residual portion of such debt instruments; or

ii) for a short (or long) position in bonds or debentures issued or guaranteed by a province of Canada and a long (or short) position in the stripped coupon or residual portion of such debt instruments;

the margin required shall be the excess of the margin required on the long (or short) position over the margin required on the short (or long position), respectively.

iii) for a short (or long) position in bonds or debentures issued or guaranteed by the Government of Canada and a long or (short) position in a stripped coupon or residual portion of a debt instrument issued or guaranteed by a province of Canada; or

iv) for a short (or long) position in bonds or debentures issued or guaranteed by a province of Canada and a long (or short) position in a stripped coupon or residual portion of a debt instrument issued or guaranteed by the Government of Canada;

the margin required shall be 50% of the total margin required for both positions otherwise determined in this Rule.

b) Stripped coupon positions

i) for a short (or long) position in a stripped coupon and a long (or short) position in a stripped coupon, and the stripped coupons are from debt instruments issued or guaranteed by the Government of Canada; or

ii) for a short (or long) position in a stripped coupon and a long (or short) position in a stripped coupon, and the stripped coupons are from debt instruments issued or guaranteed by any province of Canada;

the margin required must be the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, respectively;

iii) for a short (or long) position in a strip coupon of a debt instrument issued or guaranteed by the Government of Canada and a long (or short) position in a strip coupon of a debt instrument issued or guaranteed by a province of Canada;

the margin required shall be 50% of the total margin required for both positions otherwise determined in this Rule.

~~provided that the net margin may only be determined as aforesaid on the basis that:~~

a) ~~margin required in respect of a short (or long) position in bonds or debentures may only be netted against margin required in respect of a long (or short) position in stripped coupons or residual portion to the extent that the market value of the two positions is equal. No offset is permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position;~~

b) ~~margin required in respect of bonds or debentures issued or guaranteed by the Government of Canada may only be netted against the margin required for the stripped coupons or residual portion of other Government of Canada securities which mature within the same periods referred to in Group I of the present article;~~

c) ~~margin required in respect of bonds or debentures issued or guaranteed by a Province of Canada may only be netted against the margin required for the stripped coupons or residual portion of another Province of Canada securities which mature within the same periods referred to in Group II of the present article.~~

3) ~~Notwithstanding the foregoing provisions of this Group XI, where an approved participant or a client holds:~~

a) ~~a short (or long) position in bonds or debentures issued or guaranteed by the Government of Canada and a long (or short) position in the stripped coupons or residual portion of bonds or debentures issued or guaranteed by a province of Canada; or~~

b) ~~a short (or long) position in bonds or debentures issued or guaranteed by a province of Canada and a long (or short) position in the stripped coupons or residual portion of bonds or debentures issued or guaranteed by the Government of Canada;~~

c) Residual debt positions

i) for a short (or long) position in a residual and a long (or short) position in a residual, and the residual portions are from debt instruments issued or guaranteed by the Government of Canada; or

ii) for a short (or long) position in a residual and a long (or short) position in a residual, and the residual portions are from debt instruments issued or guaranteed by any province of Canada;

the margin required shall be the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, respectively.

iii) for a short (or long) position in a residual portion of a debt instrument issued or guaranteed by the Government of Canada and a long (or short) position of a residual portion of a debt instrument issued or guaranteed by a province of Canada;

the margin required must be 50% of the total margin required for both positions otherwise determined under thise Rules~~, provided that such margin may only be determined as aforesaid on the basis that:~~

i) ~~margin required in respect of a short (or long) position in bonds or debentures may only be netted against margin required in respect of a long (or short) position in stripped coupons or~~

~~residual portion to the extent that the market value of the two positions is equal, and no such netting is permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position;~~

~~ii) margin required in respect of bonds or debentures may only be netted against the margin required for the stripped coupons or residual portion of securities which mature within the same periods referred to in Group I and II of this article;~~

~~iii) the bonds and debentures and the stripped coupons or residual portion of such debt instrument must be denominated in Canadian dollars.~~

d) Stripped coupon and residual debt positions

i) for a short (or long) position in a stripped coupon and a long (or short) position in a residual, and the residual portions are from debt instruments issued or guaranteed by the Government of Canada; or

ii) for a short (or long) position in a stripped coupon and a long (or short) position in a residual, and the residual portions are from debt instruments issued or guaranteed by any province of Canada;

the margin required shall be the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, respectively.

iii) for a short (or long) position in a stripped coupon of a debt instrument issued or guaranteed by the Government of Canada and a long (or short) position of a residual portion of a debt instrument issued or guaranteed by a province of Canada; or

iv) for a short (or long) position in a residual portion of a debt instrument issued or guaranteed by the Government of Canada and a long (or short) position of a stripped coupon of a debt instrument issued or guaranteed by a province of Canada;

the margin required shall be 50% of the total margin required for both positions otherwise determined in this Rule.

~~4~~3) Corporate Debt

a) Bond or debenture and stripped coupon or residual debt positions

Where an approved participant holds a short (or long) position in bonds or debentures denominated in Canadian dollars issued by a corporation with a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard and Poor's Bond Record, and also holds a long (or short) position in the stripped coupon or residual portion of such debt instruments, the margin required must be the lesser of 20% and the greater of the margin required on the long (or short) position and the margin required on the short (or long) position, provided that the margin may only be determined as aforesaid on the basis that:

~~a~~i) the offset is permitted only to the extent that the market value of the two positions is equal, and no offset is permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position; and

~~b~~ii) margin required in respect of bonds or debentures issued by a corporation may only be offsetted against the margin required for the stripped coupons or residual portion of debt instruments of the same issuer, which mature within the same periods referred to in Group XI in this article for the purpose of determining margin rates.

~~5~~4) Foreign Currency debt

a) Bond or debenture and stripped coupon or residual debt positions

Where an approved participant holds a short (or long) position in bonds or debentures denominated in a foreign currency referred to in Group I of this article and also holds a long (or short) position in the stripped coupons or residual portion of such debt instruments denominated in the same currency, the margin required must be the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, provided that the net margin may only be determined as aforesaid on the basis that:

~~a~~i) margin required in respect of a short (or long) position in bonds or debentures may only be netted against margin required in respect of a long (or short) position in stripped coupons or residuals to the extent that the market value of the two positions is equal, and no such netting or offset is permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position; and

~~b~~ii) margin required in respect of bonds or debentures issued or guaranteed by a particular government may only be netted against the margin required for the stripped coupon or residual portion of debt instruments of the same government, which mature within the same periods referred to in Group I of this article for the purpose of determining margin rates.

GROUP XII Mortgage-backed securities

On securities which are based upon mortgages and are guaranteed as to timely payment of principal and interest by the issuer or its agent, the margin rate is the rate prescribed in articles 7204, 7205 and 7206 applicable to the securities of such guarantor according to the relevant maturity plus an additional margin of 25% of such applicable rate.

Where an approved participant or a client holds a short (or long) position in bonds or debentures issued or guaranteed by the Government of Canada and also holds a long (or short) position in mortgage-backed securities guaranteed by the Government of Canada, the margin required must be the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, provided that the net margin may only be determined as aforesaid on the basis that:

1) Margin required in respect of a short (or long) position in bonds or debentures may only be netted against margin required in respect of a long (or short) position in mortgage-backed securities to the extent that the market value of the two positions is equal. No netting or offset is permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position;

2) Margin required in respect of bonds or debentures may only be netted against the margin required for the mortgage-backed securities which mature within the same periods referred to in the present article for the purpose of determining margin rates; and

3) Notwithstanding the foregoing, if the market value of a long (or short) position in mortgage-backed securities exceeds the remaining principal amount of such position and the mortgages underlying such mortgage-backed securities position are subject to being repaid in full at the option of the mortgagee prior to maturity, the margin required must be the greater of the individual margins for (i) the long (or short) position in mortgage-backed securities as determined under the present paragraph or (ii) the short (or long) position in bonds or debentures as determined under Group I of this article.