Bourse de Montréal Inc.

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

CIRCULAR
June 23, 2005

REQUEST FOR COMMENTS

MARGIN AND CAPITAL REQUIREMENTS FOR OPTIONS, FUTURES CONTRACTS AND OTHER DERIVATIVE INSTRUMENTS

AMENDMENTS TO HARMONIZE THE TEXT OF RULE NINE OF THE BOURSE WITH THE TEXT OF THE CORRESPONDING REGULATIONS OF THE INVESTMENT DEALERS ASSOCIATION OF CANADA

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to Rule Nine of the Bourse, which deal with margin and capital requirements applicable to options, futures contracts and other derivative instruments. The purpose of the proposed amendments is to harmonize the text of Rule Nine with the text of Regulations 100.9 and 100.10 of the Investment Dealers Association of Canada.

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.: 097-2005

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 amendments 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 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”.

Bourse de Montréal Inc.

MARGIN AND CAPITAL REQUIREMENTS FOR OPTIONS, FUTURES CONTRACTS AND OTHER DERIVATIVE INSTRUMENTS

– AMENDMENTS TO HARMONIZE THE TEXT OF RULE NINE OF THE BOURSE WITH THE TEXT OF THE CORRESPONDING REGULATIONS OF THE INVESTMENT DEALERS ASSOCIATION OF CANADA

I SUMMARY

A) Current Rules

In connection with some amendment projects to Rule Nine of Bourse de Montréal Inc. (the Bourse), including an amendment project to integrate margin and capital requirements applicable to currency options and another to update the provisions regarding over-the-counter options, the Bourse revised Rule Nine completely and wishes to implement some amendments that will allow to harmonize its language with the one used by the Investment Dealers Association of Canada (IDA) in its corresponding Regulations 100.9 and 100.10.

B) The Issue

The text of certain parts of Rule Nine of the Bourse is worded differently from the text that is found in the corresponding paragraphs of Regulations 100.9 and 100.10 of the IDA. Although the text used by the Bourse and the one used by the IDA have the same meaning, the fact that these texts are worded differently creates a risk that approved participants will interpret them in a different manner. In order to avoid such a risk, the Bourse came to the conclusion that it was necessary to harmonize the wording of the relevant articles of Rule Nine with the one used by the IDA.

A possible alternative would have been that the IDA amend the wording of its own Regulations in order to harmonize their text with the text of the Bourse. However, since the IDA is the self-regulatory organization which has the responsibility to ensure compliance with margin and capital requirements for all securities dealers in Canada and that its regulations represent for these dealers the primary reference regarding these requirements, the Bourse concluded that it was more practical to amend its own regulations.

Furthermore, in the course of the revision of Rule Nine, the Bourse noticed that the definition of the term “participation unit” was missing in the definitions that are found in article 9001. Since many articles of Rule Nine refer to this term, the Bourse considered that it was necessary to add this definition to article 9001. It is to be noted that IDA Regulation 100.9 (a) already contains, in subparagraph (xx), such a definition.

C) Objective

The objective of the proposed amendments is to harmonize the language of some articles of Rule Nine with the one used by the IDA in the corresponding paragraphs of its Regulations 100.9 and 100.10.

Their purpose is also to add to the definitions of article 9001 a missing definition, i.e. the term “participation unit”.

The proposed amendments will eliminate the interpretation difficulties that can result from differences in the wording of regulatory texts.

D) Effects of proposed amendments

The proposed amendments will have no effect on the market structure, on competition between approved participants and other dealers and on compliance costs. The proposed amendments will allow the regulatory texts of the Bourse to be uniform with the corresponding texts of the IDA.

II DETAILED ANALYSIS

A) Current Rules and Proposed Amendments

Article 9001 - Definitions

Current article 9001 does not contain any definition of the term "participation unit". However, it is a term which is used in many articles of Rule Nine. The participation units that are referred to here are mainly those representing an interest in a trust or in a mutual fund listed on an exchange. These participation units can be the underlying interests of options in the same manner as exchange-listed equities. The various provisions of Rule Nine relating to margin requirements applicable to options apply not only to equity options, but also to options having as underlying interest a trust unit or an exchange-traded fund listed on an exchange.

Articles 9103 and 9203 – Short Options Position

The current wording of subparagraph a) ii) A) of article 9103 (applicable to positions held by a client) and of subparagraph i) A) of article 9203 (applicable to short positions held by an approved participant) respectively indicate margin rates of 25 % and 15 %.

These percentages are incorrect. Effectively, the margin rates applicable to exchange-listed equities and participation units are those prescribed by article 7202 of the Rules of the Bourse and vary between 50% and 100%. Furthermore, when such equities or participation units are eligible to a reduced margin rate, paragraph 3) of article 7202 provides that the margin rate is 30%. When these securities eligible to a reduced margin rate are held in the account of an approved participant, the margin rate applicable pursuant to paragraph 3 of article 7213 is 25%. The margin rate applicable to equities or to participation units can therefore fluctuate between 30% and 100% in the case of a client account, and between 25% and 100% in the case of an approved participant account.

Consequently, in order to harmonize the regulatory provisions of these two articles with those that are found in Regulations 100.9 (d) (i) (B) (I) and 100.10 (d) (i) (A) of the IDA and in order to ensure the use of an adequate margin rate, the Bourse proposes to amend the wording of subparagraph a) ii) A) of article 9103 and of subparagraph i) A) of article 9203 so that they be identical to those of the IDA.

Articles 9106 and 9206 – Options and Securities Combinations

a) Short call – long underlying (or convertible) combination

According to the Rules of the Bourse, the margin (or the capital) required on the above-mentioned position is equal to:

> *"… the normal margin required on the underlying interest minus, if any, the in-the-money amount associated with the call option; …"*

According to Regulations 100.9 (g) (i) (A) (position held in a client account) and 100.10 (g) (i) (A) (position held in a member account) of the IDA, the margin (or the capital) required on this same position is equal to:

> *"…the lesser of the normal margin required on the underlying interest and any excess of the aggregate exercise value of the call options over the normal loan value of the underlying interest;…"*

Although the wording of the Bourse and of the IDA read differently, their application gives exactly the same result as demonstrated by the example given in the appendix attached to this analysis.

However, the fact that the texts of the Bourse are different from those of the IDA could cause interpretation and application problems. The Bourse therefore proposes to amend the texts of paragraph a) of articles 9106 and 9206 so that they be identical to those of the IDA.

b) <u>Short put – short underlying combination</u>

According to the Rules of the Bourse, the margin (or the capital) required on the above-mentioned position is equal to:

"…the normal margin required on the underlying interest minus if any, the in-the-money value associated with the put option."

According to Regulations 100.9 (g) (ii) (position held in a client account) and 100.10 (g) (ii) (position held in a member account) of the IDA, the margin (or the capital) required on this same position is equal, in the case of a client, to:

"…the lesser of the normal margin required on the underlying interest and any excess of the normal credit required on the underlying interest over the aggregate exercise value of the put option."

and, in the case of a member, to:

"…the lesser of the normal capital required on the underlying interest and any excess of the normal capital required on the underlying interest over the in-the-money value, if any, of the put options."

Although the wording of the Bourse and of the IDA read differently, their application gives exactly the same result as demonstrated by the example given in the appendix attached to this analysis.

However, the fact that the texts of the Bourse are different from those of the IDA could cause interpretation and application problems. The Bourse therefore proposes to amend the texts of paragraphs b) of articles 9106 and 9206 so that they be identical to those of the IDA.

<u>Articles 9109 and 9209 – Index Option Combinations with Qualifying Baskets of Index Securities and Index Participation Units</u>

a) <u>Short call option combinations with long qualifying baskets of index securities or long index participation units</u>

According to the Rules of the Bourse, the margin (or the capital) required on the above-mentioned position is equal to:

"… the normal margin required on the qualifying basket of index securities (or index participation units) minus, if any, the in-the-money value associated with the call option;…"

According to Regulations 100.9 (h) (iii) (A) (position held in a client account) and 100.10 (h) (iii) (A) (position held in a member account) of the IDA, the margin (or the capital) required on this same position is equal to:

"… the lesser of the normal margin required on the qualifying basket of index securities (or index participation units) and any excess of the aggregate exercise value of the call options over the normal loan value of the qualifying basket of index securities (or index participation units)…".

Although the wording of the Bourse and of the IDA read differently, their application gives exactly the same result. The example given in the appendix attached to this analysis for paragraph a) of articles 9106 and 9206 of the Rules of the Bourse is also valid for paragraph a) of articles 9109 and 9209.

The fact that the texts of the Bourse are different from those of the IDA could cause interpretation and application problems. The Bourse therefore proposes to amend the texts of paragraphs a) of articles 9109 and 9209 so that they be identical to those of the IDA.

b) <u>Short put option combinations with short qualifying baskets of index securities or short index participation units</u>

According to the Rules of the Bourse, the margin (or the capital) required on the above-mentioned position is equal to:

"… the normal margin required on the qualifying basket of index securities (or participation units); minus if any, the in-the-money value associated with the put option…"

According to Regulations 100.9 (h) (iii) (B) (position held in a client account) and 100.10 (h) (iii) (B) (position held in a member account) of the IDA, the margin (or the capital) required on this same position is equal to:

"… the lesser of the normal margin required on the qualifying basket of index securities (or participation units); and any excess of the normal credit required on the qualifying basket of index securities (or index participation units) over the aggregate exercise value of the put option…".

Although the wording of the Bourse and of the IDA read differently, their application gives exactly the same result. The example given in the Appendix attached to this analysis for paragraph b) of articles 9106 and 9206 of the Rules of the Bourse is also valid for paragraph b) of articles 9109 and 9209.

However, the fact that the texts of the Bourse are different from those of the IDA could cause interpretation and application problems. The Bourse therefore proposes to amend the texts of paragraph b) of articles 9109 and 9209 so that it be identical to the IDA's.

<u>Article 9208 – Index Options and Index Participation Unit Option Spread Combination</u>

Paragraph a) of article 9208 provides for the capital requirements that are applicable to various spread positions involving call options and put options. The requirements of this paragraph are applicable only to positions held in approved participants' accounts.

When such positions are held in clients' accounts, the provisions applicable are those of paragraph a) of article 9108. In the case of the IDA, the provisions applicable to positions held by clients are those of Regulation 100.9 (h) (ii) (A).

However, paragraph a) of article 9108 requires, in the same manner as the IDA Regulation does, that the short option position expires no later than the long option position in order to permit the application of the provisions of this paragraph, while paragraph a) of article 9208 does not contain such a requirement.

When drafting Rule Nine and updating the various margin and capital rules, the Bourse and the IDA had come to the conclusion that there were no justifications for having margin requirements applicable to clients that are more restrictive than those applicable to approved participants. As a consequence, the new Rule nine that was implemented on January 1, 2005 treats clients and approved participants in the same manner except for certain margin rates applicable to some underlying interests.

In the course of its review of Rule Nine the Bourse noticed that the above-mentioned requirement relating to the expiry of short options had not been incorporated to paragraph a) of article 9208 while the IDA had incorporated it to its corresponding Regulation 100.10 (h) (ii) (A) so that the restrictions applicable to the expiry of options are applicable not only to clients but also to the members of the IDA.

The Bourse therefore proposes to amend paragraph a) of article 9208 in order to incorporate therein a provision identical to the one that exists in paragraph a) of article 9108. This amendment will not only allow to harmonize the wording of these two articles, but also to harmonize the Rules of the Bourse with the corresponding Regulations of the IDA.

B) Public Interest

The objective of the proposed amendments is to make some housekeeping amendments to Rule Nine of the Bourse relating to margin and capital requirements applicable to derivative instruments and to harmonize the language with the corresponding Regulations of the IDA. Consequently, the proposed amendments are considered to be of public interest.

III COMMENTS

A) Efficiency

By harmonizing the text of Rule Nine with the text of Regulations 100.9 and 100.10 of the IDA, the effect of the proposed amendments will be to eliminate the interpretation and application difficulties that could result from regulatory texts that are drafted differently, even though they have fundamentally the same meaning and give identical results.

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 is obtained, the project is 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.

IV SOURCES

- Rule Nine of Bourse de Montréal Inc.;
- Regulations 100.9 and 100.10 of the Investment Dealers Association of Canada (IDA)

APPENDIX A

Example	Rules of the Bourse	IDA Regulations
Short call – long underlying (or convertible) combination Exercise price of the option: $50.00 Market value of the underlying: $52.00 Margin rate required on the underlying: 30%	**Article 9106, paragraph a) - Clients** **Article 9206, paragraph a) – Approved Participants** **Article 9109, paragraph a) - Clients** **Article 9209, paragraph a) – Approved Participants** The margin (or the capital) required on the underlying: $52.00 x 100 x 30% = $1,560 Less The in-the-money value of the option : ($52.00 - $50.00) x 100 = $200.00 Net margin (or capital) required: ($ 1,560 - $200) = $1,360	**Regulation 100.9 (g) (i) (A) - Clients** **Regulation 100.10 (g) (i) (A) - Members** **Regulation 100.9 (h) (iii) (A) - Clients** **Regulation 100.10 (h) (iii) (A) - Members** The lesser of: The margin (or the capital) required on the underlying: $52.00 x 100 x 30% = $1,560 and any excess of the aggregate exercise value of the call option over the normal loan value of the underlying security: Aggregate exercise value = $50.00 x 100 = $ 5,000 Loan value of the underlying –security: $ 52.00 x 100 x 70% = $ 3 640 Excess = $5,000 - $3,640 = $1,360 The margin (or the capital) required is therefore $1,360, this amount representing the lesser of the two calculations above.

Example	Rules of the Bourse	IDA Regulations
Short put – short underlying combination Exercise price of the option: $52.00 Market value of the underlying: $50.00 Margin rate required on the underlying: 30%	**Article 9106, paragraph b) - Clients** **Article 9109, paragraph b) – Clients** The margin required on the underlying interest: $50.00 x 100 x 30% = $1,500 Less the in-the-money value of the option: ($52.00 - $50.00) x 100 = $200.00 Net margin required: ($1,500 - $200) = $1,300	**Regulation 100.9 (g) (ii) (A) - Clients** **Regulation 100.9 (h) (iii) (B) - Clients** The lesser of : The margin (or the capital) required on the underlying interest: $ 50.00 x 100 x 30% = $1,500 and: the excess of the normal prescribed credit on the underlying interest over the aggregate exercise value of the put options: Prescribed credit balance: $50.00 x 100 x 130% = $6,500 Aggregate exercise value = $52.00 x 100 = $5,200 Excess = $6,500 - $5,200 = $1,300 The required margin is therefore $ 1,300, this amount representing the lesser of the two calculations above

Example	Rules of the Bourse	IDA Regulations
Short put – short underlying combination Exercise price of the option: $52.00 Market value of the underlying: $50.00 Margin rate required on the underlying: 25%	**Article 9206, paragraph b) – Approved Participants** **Article 9209, paragraph b) – Approved Participants** The capital required on the underlying interest: $50.00 x 100 x 25% = $1,250 Less The in-the-money value of the option: ($52.00 - $50.00) x 100 = $200.00 Net capital required ($1,250 - $200) = $1,050	**Regulation 100.10 (g) (ii) (A) – Members** **Regulation 100.10 (h) (iii) (B) – Members** The lesser of: The margin (or the capital) required on the underlying interest $ 50.00 x 100 x 25% = $ 1,250 and the excess of the normal capital prescribed on the underlying interest over the in-the-money value of the put options, if any. Prescribed capital on the underlying interest: $50.00 x 100 x 25%) = $1,250 In-the-money value of the put options: ($52.00 - $50.00) x 100 = $200.00 Excess = $1,250 - $200 = $1,050 The capital required is therefore $1,050, this amount representing the lesser of the two calculations above

APPENDIX B

RULE NINE
MARGIN AND CAPITAL REQUIREMENTS
FOR OPTIONS, FUTURES CONTRACTS AND
OTHER DERIVATIVE INSTRUMENTS

Section 9001 – 9100
General Provisions

9001 Definitions
(01.01.05, 00.00.05)

For the purpose of the present Rule:

(…)

k) “**participation unit**” means an interest in a trust, the underlying asset of which are equities or other securities;

(…)

9002 Risk Margining Systems
(01.01.05, 00.00.05)

a) With respect to an approved participant account constituted exclusively of positions in derivative instruments listed on the Bourse, the capital required may be the one calculated, as the case may be, by the Standard Portfolio Analysis (SPAN) methodology or by the Theoretical Intermarket Margin System (TIMS) methodology, using the margin interval calculated and the assumptions used by the Canadian Derivatives Clearing Corporation. All changes to the assumptions used by the Canadian Derivatives Clearing Corporation must be approved by the Bourse prior to implementation to ensure that the continued use of SPAN and TIMS methodologies for regulatory purposes is appropriate.

The selected methodology (either SPAN or TIMS) must be used consistently and cannot be changed without the prior consent of the Bourse. If the approved participant selects the SPAN methodology or the TIMS methodology, the capital requirements calculated under those methodologies will supersede the provisions stipulated in the Rules.

For the purpose of the present article, “margin interval” means 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; multiplied by

ii) 3 (for a 99% confidence interval); and multiplied by

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

b) With respect to a client account, it is prohibited to use SPAN methodology or TIMS methodology to determine margin requirements.

9003 Inter-Commodity Combinations
(01.01.05, 00.00.05)

Unless otherwise specified, offsets are ~~currently~~ not ~~available~~ permitted for positions in client accounts or approved participant accounts involving derivative instruments based on two different underlying interests.

Section 9101 – 9200
Margin Requirements on Equity-Related Derivatives

9103 Short Option Positions
(01.01.05, 00.00.05)

a) The minimum margin requirement which must be maintained in respect of an 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 interest determined using the following percentages:

A) for equity options or equity participation unit options, ~~25%~~the market value of the equivalent number of equity securities or participation units multiplied by the margin rate applicable to the underlying interest;

B) for index options or index participation unit options, the published floating margin rate for the index or index participation unit;

minus

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

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

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

ii) an additional requirement determined by multiplying:

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

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

by one of the following percentages:

C) for equity options or equity participation unit options, 5%; or

D) for index options or index participation unit options, 2%.

APPENDIX B

9105 Option~~s~~ Spreads and Combinations
(01.01.05, 00.00.05)

a) Call spreads and put spreads

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

- long call option and short call option; or
- long put option and 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 pairing must be the lesser of:

i) the margin required on the short option pursuant to article 9103; or

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

(…)

9106 Option and Security Combinations
(01.01.05, 00.00.05)

a) Short call – long underlying (or convertible) combination

Where, in the case of equity or equity participation unit options, a call option is carried short in a client's account and the account is also long an equivalent position in the underlying interest or, in the case of equity options in a security readily convertible or exchangeable (without restrictions other than the payment of consideration and within a reasonable time provided such time must be prior to the expiration of the call option) into the underlying interest, or in the case of equity participation unit options in securities readily exchangeable into the underlying interest, the minimum margin required must be the sum of:

i) the lesser of

A) the normal margin required on the underlying interest; ~~minus~~and

B) ~~if any, the in-the-money amount associated with the call option~~any excess of the aggregate exercise value of the call options over the normal loan value of the underlying interest;

and

ii) where a convertible security or exchangeable security is held, any excess of the market value of the convertible or exchangeable security over the market value of the equivalent number of underlying securities.

In the case of exchangeable or convertible securities, the right to exchange or convert the long security must not expire prior to the expiration date of the short call option. If the expiration of the right to exchange or convert is accelerated (whether by reason of redemption or otherwise), then such short call option must be considered uncovered after the date on which such right to exchange or convert expires.

b) Short put – short underlying combination

Where, in the case of equity or equity participation unit options, a put option is carried short in a client's account and the account is also short an equivalent position in the underlying interest, the minimum margin required must be the lesser of:

i) the normal margin required on the underlying interest; ~~minus~~and

ii) ~~if any, the in-the-money value associated with the put option~~any excess of the normal credit required on the underlying interest over the aggregate exercise value of the put option.

(…)

9108 Index Option and Index Participation Unit Option Spread Combinations
(01.01.05, 00.00.05)

a) Call spread combinations and put spread combinations

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

- long index call option and short index participation unit call option; or
- long index put option and short index participation unit put option; or
- long index participation unit call option and short index call option; or

- long index participation unit put option and short index 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 combination must be the lesser of:

i) the margin required on the short option pursuant to article 9103; and

ii) the greater of:

  A) the loss amount, if any, that would result if both options were exercised; and

  B) the published tracking error margin rate for a spread between the index and the related index participation units, multiplied by the market value of the underlying index participation units.

9109 Index Option Combinations with Qualifying Baskets of Index Securities and Index Participation Units
(01.01.05, 00.00.05)

a) Short call option combinations with long qualifying baskets of index securities or long index participation units

Where a client account contains one of the following option related combinations:

- short index call options and long an equivalent number of qualifying baskets of index securities; or
- short index call options and long an equivalent number of index participation units (note: subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of qualifying baskets of index securities (note: subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of index participation units;

the minimum margin required must be the greater of:

i) the lesser of

  A) the normal margin required on the qualifying basket of index securities (or index participation units); ~~minus~~and

B) ~~if any, the in-the-money value associated with the call option~~any excess of the aggregate exercise value of the call options over the normal loan value of the qualifying basket of index securities (or index participation units);

and

ii) where applicable, the published tracking error margin rate for a spread between the index and the related index participation units, multiplied by the market value of the underlying index participation units.

b) Short put option combinations with short qualifying baskets of index securities or short index participation units

Where a client account contains one of the following option related combinations:

- short index put options and short an equivalent number of qualifying baskets of index securities; or
- short index put options and short an equivalent number of index participation units (note: subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of qualifying baskets of index securities (note: subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of index participation units;

the minimum margin required must be the greater of:

i) the lesser of

A) the normal margin required on the qualifying basket of index securities (or participation units); ~~minus~~and

B) ~~if any, the in-the-money value associated with the put option~~any excess of the normal credit required on the qualifying basket of index securities (or index participation units) over the aggregate exercise value of the put option;

and

ii) where applicable, the published tracking error margin rate for a spread between the index and the related index participation units, multiplied by the market value of the underlying index participation units.

(…)

APPENDIX B

9203 Short Option Positions
(01.01.05, 00.00.05)

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

i) a percentage of the market value of the underlying interest determined using the following percentages:

A) for equity options or equity participation unit options, ~~15%~~the market value of the equivalent number of equity securities or participation units multiplied by the margin rate applicable to the underlying interest;

B) for index options or index participation unit options, the published floating margin rate for the index or index participation unit;

minus

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

9205 Option Spreads and Combinations
(01.01.05, 00.00.05)

a) Call spreads and put spreads

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

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

the minimum capital required must be the lesser of:

i) the capital required on the short option pursuant to article 9203; or

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

(…)

c) Long call – long put spreads

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

i) the sum of:

A) the ~~margin~~ capital required for the call option; and

B) the ~~margin~~ 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.

(…)

9206 Options and Security Combinations
(01.01.05, 00.00.05)

a) Short call – long underlying (or convertible) combination

Where, in the case of equity or equity participation unit options, a call option is carried short in an approved participant's account and the account is also long an equivalent position in the underlying interest or in the case of equity options in a security readily convertible or exchangeable (without restrictions other than the payment of consideration and within a reasonable time provided such time must be prior to the expiration of the call option) into the underlying interest, or in the case of equity participation unit options in securities readily exchangeable into the underlying interest, the minimum capital required must be the sum of:

i) the lesser of

A) the normal capital required on the underlying interest; ~~minus~~and

B) ~~if any, the in-the-money value associated with the call option~~any excess of the aggregate exercise value of the call options over the normal loan value of the underlying interest;

and

ii) where a convertible security or exchangeable security is held, any excess of the market value of the convertible or exchangeable security over the market value of the equivalent number of underlying securities.

The market value of the short call option may be used to reduce the capital required on the long security, but cannot reduce the capital required to less than zero.

b) Short put – short underlying combination

Where, in the case of equity or equity participation unit options, a put option is carried short in an approved participant's account and the account is also short an equivalent position in the underlying interest, the minimum capital required must be the lesser of:

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

ii) ~~if any, the in-the-money value associated with the put option~~any excess of the normal capital required on the underlying interest over the in-the-money value, if any, of the put options.

The market value of the short put option may be used to reduce the capital required on the short security, but cannot reduce the capital required to less than zero.

(…)

f) Reconversion or short tripo combination

Where, in the case of equity or equity participation unit options, a position in an underlying interest is carried short in an approved participant's account and the account is also long an equivalent position in call options and short an equivalent position in put options, the minimum capital required must be:

i) 100% of the market value of the long call options; minus

ii) 100% of the market value of the short put options; plus

iii) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the underlying interest, where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the put options.

9208 Index Options and Index Participation Unit Option Spread Combinations
(01.01.05, 00.00.05)

a) Call spread combinations and put spread combinations

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

- long index call option and short index participation unit call option; or
- long index participation unit call option and short index call option; or
- long index put option and short index participation unit put option; or
- long index participation unit put option and short index put option;

and the short option expires on or before the date of expiration of the long option, the minimum capital required must be the lesser of:

i) the capital required on the short option pursuant to article 9203; and

ii) the greater of:

A) the spread loss amount, if any, that would result if both options were exercised; and

B) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(…)

9209 Index Option Combinations with Qualifying Baskets of Index Securities and Index Participation Units
(01.01.05, 00.00.05)

a) Short call option combinations with long qualifying baskets of index securities or long index participation units

Where an approved participant account contains one of the following option related combinations:

- short index call options and long an equivalent number of qualifying baskets of index securities; or
- short index call options and long an equivalent number of index participation units (note: subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of qualifying baskets of index securities (note: subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of index participation units;

the minimum capital required must be the greater of:

i) the lesser of

A) the normal capital required on the qualifying basket of index securities (or index participation units); ~~minus~~and

B) ~~if any, the in-the-money value associated with the call option~~any excess of the aggregate exercise value of the call options over the normal loan value of the qualifying basket (or participation units);

and

ii) where applicable, the published tracking error margin rate for a spread between the index and the related index participation units, multiplied by the market value of the underlying index participation units.

b) Short put option combinations with short qualifying index baskets or short index participation units

Where an approved participant account contains one of the following option related combinations:

- short index put options and short an equivalent number of qualifying baskets of index securities; or
- short index put options and short an equivalent number of index participation units (note: subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of qualifying baskets of index securities (note: subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of index participation units;

the minimum capital required must be the greater of:

i) the lesser of

A) the normal capital required on the qualifying basket of index securities (or index participation units); ~~minus~~and

B) ~~if any, the in-the-money value associated with the put option~~any excess of the normal credit required on the underlying interest over the aggregate exercise value of the put options;

and

ii) where applicable, the published tracking error margin rate for a spread between the index and the related index participation units, multiplied by the market value of the underlying index participation units.

(…)

APPENDIX B

Section 9301 – 9400
Margin Requirements on Interest Rate Related Derivatives

9301 Exchange Traded Options - General
(01.01.05, 00.00.05)

a) The Bourse shall establish margin requirements applicable to options positions held by clients and no approved participant shall effect an option transaction 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 this section;

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

c) each option must be margined separately and any difference between the market price of the underlying interest 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 CDCC options and OCC options that have the same underlying interest, the OCC options may be considered to be options for the purposes of the calculation of the margin requirements for the account under the provisions of this section;

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

APPENDIX B

Section 9401 - 9500
Capital Requirements on Interest Rate Related Derivatives

9401 Exchange Traded Options – General
(01.01.05, 00.00.05)

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

b) in the treatment of 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 will be charged against the approved participant's capital;

d) where an approved participant account holds both CDCC options and OCC options that have the same underlying interest, the OCC options may be considered to be options for the purposes of the calculation of the capital requirements for the account under the provisions of this section;

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

f) in the pairing described in articles 9405, 9406 and 9424, options of different classes for which the underlying bonds have the same margin rate may be paired together provided that:

   i) the exercise price of the option for which the market value of the underlying bond is the lowest must be increased by the difference between the market value of the underlying bonds; and

   ii) to the capital required pursuant to articles 9405, 9406 and 9424 must be added an amount equal to the margin that would be required on the net bond position which would result if both options were exercised.