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

CIRCULAR
October 6, 2004

REQUEST FOR COMMENTS

MARGIN REQUIREMENTS FOR CNQ EXCHANGE TRADED SECURITIES

AMENDMENTS TO ARTICLE 7202

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to article 7202 of the Rules of the Bourse, which deal with securities listed on Canadian Trading and Quotation System Inc. (CNQ). The purpose of these amendments is to exclude CNQ listed securities from being carried on margin.

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 broker-dealers regulation responsibilities. The broker-dealers regulated by the Bourse are 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.: 125-2004

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 7202 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".

Bourse de Montréal Inc.

MARGIN REQUIREMENTS FOR CNQ EXCHANGE TRADED SECURITIES

– AMENDMENTS TO ARTICLE 7202

I OVERVIEW

Bourse de Montréal Inc. (the Bourse) wishes to amend article 7202 of the Rules of the Bourse dealing with the margin requirements for securities listed on any recognized stock exchange in Canada.

The purpose of the proposed amendments is to exclude securities listed on the Canadian Trading and Quotation System Inc. (CNQ) from being carried on margin.

II DETAILED ANALYSIS

A) Current Rules

Under the current rules of the Bourse, securities listed on any recognized exchange in Canada are eligible for margin except when the regulations specifically prohibit giving them any loan value. For example, securities of issuers listed on the TSX Venture Exchange as Capital Pool Companies, Tier 3 listings and Inactive Tier 2 listings are all classes of Canadian listed securities, which are currently denied loan value.

B) The Issue

Following the recognition of CNQ as an exchange[1,2] by the Ontario Securities Commission (OSC), securities listed on CNQ are automatically eligible for margin, unless a rule amendment is made to specifically deny loan value to these securities. CNQ quoted Issuers listed on the CNQ are mostly emerging companies and the minimum listing standards of this exchange are lower than the minimum standards for issuers on the Toronto Stock Exchange or the TSX Venture Exchange. Because of these lower listing requirements (including a lower market capitalization requirement), the proposed amendments aim to treat CNQ listed securities in the same manner as the issues of Capital Pool Companies, Tier 3 and Inactive Tier 2 listed on the TSX Venture Exchange for margin purposes and to deny them loan value.

C) Alternatives Considered

An alternative that was considered was to permit loan value for CNQ listed securities with prices or capitalization above a certain threshold level. However, it was decided that securities with higher prices or capitalization are likely to migrate to a senior exchange and therefore a price or capitalization based rule was considered unnecessary.

D) Objective

The objective of the proposed amendments to article 7202 of the Rules of the Bourse is to exclude CNQ listed securities from being carried on margin.

E) Effect of Proposed Rules

Adoption of the proposed amendments will have no effect on market structure, as at present CNQ securities are not eligible for loan value (with the exception of one security). In general, this

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[1] On May 7, 2004, the OSC issued an order recognizing the CNQ as a stock exchange. Prior to recognition, CNQ operated as a recognized quotation and trade reporting system (QTRS) and as such provided an electronic marketplace for Ontario investment dealers to trade non-exchange listed securities of Ontario reporting issuers. As a result of recognition, CNQ will provide a listing opportunity to emerging companies and quoted issuers will automatically become Ontario reporting issuers.

[2] The request to recognize the CNQ as an exchange is currently under review by the Autorité des marchés financiers.

will also have no effect on competition and on costs of compliance with other rules.

F) Comparison with Similar Provisions

For margin purposes, the proposed amendments will treat CNQ listed securities in the same manner as Capital Pool Companies, Tier 3 listings and Inactive Tier 2 listings listed on the TSX Venture Exchange.

G) Public Interest Objective

This purpose of this proposal is to standardize industry practices regarding securities listed on the CNQ and to ensure investor protection. It will not permit unfair discrimination among customers, issuers, brokers, dealers, approved participants or others. It will not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. Consequently, the proposed amendments are considered to be in the public interest.

III COMMENTARIES

A) Effectiveness

The proposed amendments are believed to be effective in ensuring the application an identical margin treatment to securities of Capital Pool Companies, Tier 3 issuers and Inactive Tier 2 issuers listed on the TSX Venture Exchange and to securities listed on the CNQ.

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 second step consists in submitting the proposed amendments 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 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 REFERENCES

- Rule Seven of Bourse de Montréal Inc.;
- CNQ Recognition as a Stock Exchange – Notice of Commission approval by the Ontario Securities Commission.

APPENDIX B

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, 00.00.04)

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 and securities traded on the Canadian Trading and Quotation System Inc. 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.

(…)