

**RULE ELEVEN**

**OPTIONS ACCOUNTS MANAGEMENT**

**Section 11001 - 11150**

**Qualification of Approved Participants, (13.09.05)**

**11001 Dealing in Options**

(10.10.81, 25.05.82, 25.09.84, 10.11.92, 13.09.05)

An approved participant must not have any dealing with any client or prospective client in obtaining, taking or soliciting orders for or advising on trades in options unless one or more persons employed by it are approved as registered options principals.

**11002 Approval of Registered Options Principals**

(04.10.77, 10.11.92 21.08.02, 13.09.05)

- a) An application for approval as a registered options principal must be submitted to the Bourse unless such application has been submitted to and approved by the self-regulatory organization responsible for the supervision of the approved participant concerned under the agreement establishing the Canadian Investor Protection Fund.
- b) The registered options principal at the time he is approved and throughout his term of office must have satisfied the applicable proficiency requirements outlined in Policy F-2 of the Bourse.

**11003 Duties of the Registered Options Principal**

(01.08.87, 10.11.92, 13.09.05)

The registered options principal is responsible for the operation and the supervision of the approved participant with regard to option contracts and more particularly, but without limiting the generality of the foregoing, he must:

- a) authorize the opening of every option account by accepting in writing every option account application form with the exception of the provisions of paragraph b) of article 11151;
- b) supervise every account dealing in options;
- c) approve discretionary orders;
- d) approve all advertisements relating to options.

**11004 Approval of Registered Options Representatives**

(04.10.77, 19.10.82, 25.09.84, 10.11.92, 13.09.05)

No person shall have any dealings with any client or prospective client of an approved participant or affiliated corporation in obtaining, taking or soliciting orders or advising on trades in options unless such person has been approved as a registered options representative by the Bourse or by another self-regulatory organization responsible for the supervision of the concerned approved participant, under the agreement establishing the Canadian Investor Protection Fund.

**11005 Qualifications of Registered Options Representatives**

(10.11.92, 28.01.02, 21.08.02, 13.09.05)

The applicant must have satisfied the applicable proficiency requirements outlined in Policy F-2 of the Bourse.

Notwithstanding the provisions of this article, all other provisions regarding options trading also apply to sponsored options.

**11006 Special Qualifications for IOCC Options**

(10.11.92, abr. 13.09.05)

**11007 Dealing in Options on Futures Contracts**

(11.12.89, 10.11.92, abr. 13.09.05)

**11008 Registration of Registered Futures Options Principals**

(11.12.89, 10.11.92, 21.08.02, abr. 13.09.05)

**11009 Duties of Registered Futures Options Principal**

(11.12.89, 10.11.92, abr. 13.09.05)

**11010 Delegation**

(11.12.89, 10.11.92, 21.08.02, abr. 13.09.05)

**11011 Registered Futures Options Representative**

(11.12.89, 10.11.92, abr. 13.09.05)

**11012 Requirements to be Registered Futures Options Representative**

(11.12.89, 10.11.92, 21.08.02, abr. 13.09.05)

**11013 Minimum Number of Registered Futures Options Representatives**

(11.12.89, 10.11.92, abr. 13.09.05)

**Section 11151 - 11200  
Conduct of Options Accounts**

**11151 Opening of Options Accounts**

(09.12.75, 16.03.82, 25.05.82, 19.10.82, 13.03.87, 01.08.87, 13.09.05)

- a) An approved participant must not have any dealing or trading with any client in options unless:
- i) the client of the approved participant trading or dealing in options has executed an options account application form and an options trading agreement or, in the case of an acceptable institution or of an acceptable counterparty, a special options account application form and options trading agreement;
  - ii) the approved participant has delivered to the client, before the first trade made by that client, the current disclosure statement for exchange-traded options, receipt of which must be acknowledged in writing;

- iii) the options account has been authorized in writing by the registered options principal.
- b) In the case of branch offices, the opening of an options account may be approved by the branch manager, but such account must be authorized in writing within a reasonable time by the registered options principal.

If the manager of such branch office has successfully completed the course prescribed by the Bourse, the authorization mentioned above is not required.

**11152 Diligence as to Option Accounts**  
(16.03.82, 13.09.05)

Every approved participant must comply with, for what concerns options accounts, the provisions set forth in section 7451-7475 of the Rules entitled "Conduct of Accounts".

Every approved participant must deliver each new disclosure statement within a reasonable period of time and before the completion of any transaction to which this new statement applies.

**11153 Options Trading Agreement**  
(05.08.75, 09.12.75, 24.04.84, 13.09.05)

Every options trading agreement between an approved participant and a client must be in writing and must contain and define the following:

- a) the terms and conditions specified in articles 7458 and 7459;
- b) the right of the approved participant to exercise discretion in accepting orders;
- c) the approved participant's obligations with respect to errors and/or omissions and to the time periods during which orders will be accepted for execution;
- d) the method of allocation of exercise notices;
- e) a notice that maximum limits may be set on short positions and that during the last 10 days prior to expiration, cash only terms may be applied and in addition, that the clearing corporation may enact other rules affecting existing or subsequent transactions;
- f) a notice that in view of the trading procedures on the options market it may happen that a market maker representing the approved participant may be on the other side of the transaction and that accordingly, the approved participant may be indirectly and without prior knowledge acting as a counterparty;
- g) the client's obligations to instruct the approved participant to execute closing transactions prior to the expiration date;
- h) the client's undertaking to comply with the provisions of the relevant rules and policies of the clearing corporation and of the Bourse and in particular, with those pertaining to position limits and exercise limits;

- i) if the client is an acceptable institution or an acceptable counterparty, an undertaking covering the following matters and providing that:
  - i) all transactions wherever made and all positions wherever carried, are and shall be subject to the rules and policies, and to the customs and usages of the Bourse or of the concerned market and of its clearing corporation;
  - ii) all transactions will be governed by paragraph h) above; and
  - iii) all transactions will be properly covered.

**11154 Discretionary Accounts**  
(13.09.05)

- a) Prior to operating a discretionary options account, an approved participant must comply with the requirements of article 7453 and section 7476-7500 and the account must be accepted as such in writing by the registered options principal who must approve and initial each discretionary order on the day entered;
- b) discretionary accounts must be subjected to frequent and appropriate reviews by the registered options principal;
- c) each discretionary order must be identified as such on the order at the time of entry.

**11155 Confirmation to Clients**  
(13.09.05)

Every approved participant must promptly furnish to each client a written confirmation of each transaction in options contracts. In addition to the information required by article 7455, the confirmation must at least provide:

- a) the expiration month;
- b) the exercise price of the option;
- c) the amount of the premium;
- d) indication whether an opening or closing transaction is involved;
- e) the settlement date;

and any other information which may be prescribed from time to time by the Bourse.

**11156 Statements of Option Accounts to Clients**  
(13.09.05)

Every approved participant must send to each of its clients statements of accounts as prescribed by article 7455.

**11157 Bona Fide Hedgers**

(23.11.83, 22.04.85, 08.09.89, 13.09.05)

- a) A bona fide hedger is defined as a person that purchases or sells options for the purpose of minimizing a price risk or of facilitating the customary or normal conduct of business.
- b) An approved participant must not consider an account as a bona fide hedger account if the following conditions have not been satisfied:
  - i) the prospective hedger has made an application to the approved participant wherein he states that:
    - A) the intended positions will be bona fide hedges;
    - B) the hedges are necessary or advisable as an integral part of his business (fully explaining the nature and extent of his business);
  - ii) the hedge positions are kept in a special hedge account in the books of the approved participant;
  - iii) the hedger complies with whatever limitations or requirements of the Bourse in relation to said hedges;
  - iv) the hedger complies with all applicable Regulations of the Bourse; and
  - v) hedges are moved in an orderly manner in accordance with sound commercial practices, and are not initiated or liquidated in a manner which could cause unreasonable or unwarranted price fluctuations.
- c) Bona fide hedgers will be deemed to be market makers for the purposes of capital requirements and margins for options held in a firm or market maker's account.

**11158 Opening of Futures Option Accounts**

(11.12.89, abr. 13.09.05)

**11158 Allocation of Exercise Notices**

(13.09.05)

Each approved participant must establish a fixed written procedure for the allocation of exercise notices assigned in respect of short positions in its clients' accounts. The procedure adopted may be on a "first in, first out" basis, on a random selection basis or another allocation method that is fair and equitable to the approved participant's clients.

**11159 Reserved for future use**

**11160 Reserved for future use**

**11161 Letter of Undertaking**

(11.12.89, abr. 13.09.05)

**11162 Futures Contracts Option Accounts Opened by a Person Other than the Client**  
(11.12.89, abr. 13.09.05)

**11163 Discretionary Futures Option accounts**  
(11.12.89, abr. 13.09.05)

**11164 Confirmation to Clients**  
(11.12.89, abr. 13.09.05)

**11165 Monthly Statement to Clients**  
(11.12.89, abr. 13.09.05)

**Section 11201 - 11250**  
**Margin/Capital Requirements**  
(abr. 01.01.05)

**11201 Options Margin – General**  
(abr. 01.01.05)

**11202 Long Positions in Options**  
(28.01.02, abr. 01.01.05)

**11203 Margin Required for Simple Short Position**  
(08.08.86, 15.08.86, 01.01.87, 19.05.87, 30.09.87, 31.05.88, 24.11.92, 07.09.99, 11.02.00, abr. 01.01.05)

**11204 Cover for a Short Index Call**  
(abr. 01.01.05)

**11205 Margin Required for Paired Option Positions (Spreads, etc.)**  
(15.08.86, 28.01.02, abr. 01.01.05)

**11206 Margin Required for Paired Positions in Underlying Securities and Short Options**  
(08.08.86, 15.08.86, 01.01.92, abr. 01.01.05)

**11207 Margin Required for Paired Positions in Underlying Securities and Long Options**  
(08.08.86, 15.08.86, 30.09.87, 08.12.94, 28.01.02, abr. 01.01.05)

**11208 Combination of Bond Options and Bond Futures or Treasury Bill Options and Treasury Bill Futures**  
(08.08.86, 19.01.95, abr. 01.01.05)

**11209 Margin Offsets – OCC Options**  
(abr. 01.01.05)

**11210 Marking Price for Underlying Bonds and Treasury Bills**  
(28.09.82, 06.08.86, 15.08.86, abr. 01.01.05)

**11211 Marking Price for Underlying Indexes**  
(24.04.84, abr. 01.01.05)

- 11212 Margin required Bond Options paired with Bond Futures**  
(15.09.89, 19.01.95, abr. 01.01.05)
- 11213 Long Positions on Options on Futures Contracts**  
(20.03.91, abr. 01.01.05)
- 11214 Margin Required for Simple Short Positions on Option on Futures Contracts**  
(20.03.91, 07.04.94, abr. 01.01.05)
- 11215 Margin Required for Paired Option Positions on Futures Contracts**  
(20.03.91, 07.04.94, abr. 01.01.05)
- 11216 Margin Required for Paired Positions in Futures Contracts and Short Options on Futures Contracts**  
(20.03.91, 07.04.94, abr. 01.01.05)
- 11217 Margin Required for Paired Positions on Futures Contracts and Long Options on Futures Contracts**  
(20.03.91, abr. 01.01.05)
- 11218 – 11225 (reserved)**  
(abr. 01.01.05)
- 11226 Charges Against Capital General**  
(20.03.91, 28.01.02, abr. 01.01.05)
- 11227 Capital required - Unpaired long or short positions in options**  
(08.08.86, 01.01.87, 30.09.87, 11.02.00, abr. 01.01.05)
- 11228 Capital Required for Paired Option Positions (Spreads)**  
(15.08.86, 30.09.87, 01.01.89, 28.01.02, abr. 01.01.05)
- 11229 Capital Required for Paired Positions in Underlying Securities and Short Options**  
(08.08.86, 15.08.86, 30.09.87, 01.01.92, 03.11.93, 28.01.02, abr. 01.01.05)
- 11230 Capital Required for Paired Positions in Underlying Securities and Long Options**  
(am. 08.08.86, 15.08.86, am. eff. 30.09.87, 28.01.02, abr. 01.01.05)
- 11231 Capital Required on "Reconversions"**  
(15.08.86, 28.01.02, abr. 01.01.05)
- 11232 Capital Required on "Conversions"**  
(15.08.86, 28.01.02, abr. 01.01.05)
- 11233 Capital required - Bond Options paired with Bond Futures**  
(08.08.86, 21.11.86, 15.09.89, 19.01.95, abr. 01.01.05)
- 11234 Trade Date, Settlement Date for Capital Requirements**  
(abr. 01.01.05)

**11235-39 (Reserved)**

(abr. 01.01.05)

**11240 Capital Required**

(19.01.95, 28.01.02, abr. 01.01.05)

**11241 et 11242 (reserved)**

(abr. 01.01.05)

**11243 Capital Required - Unpaired Long or Short Positions in Options on Futures Contracts**

(20.03.91, 07.04.94, abr. 01.01.05)

**11244 Capital Required - Paired Option Positions on Futures Contracts**

(20.03.91, 07.04.94, abr. 01.01.05)

**11245 Capital Required for - Paired Positions in Futures Contracts and Short Options on Futures Contracts**

(20.03.91, 07.04.94, abr. 01.01.05)

**11246 Capital Required for - Paired Positions in Futures Contract and Long Option on futures Contract**

(20.03.91, 07.04.94, abr. 01.01.05)

**11247 Capital Required on "reconversion"**

(20.03.91, 07.04.94, abr. 01.01.05)

**11248 Capital Required on "conversion"**

(20.03.91, 07.04.94, abr. 01.01.05)

**Section 11251 - 11265**  
**Over-the-counter (OTC) options**  
(abr. 01.01.05)

**11251 Margin requirements - general provisions**

(24.12.98, abr. 01.01.05)

**11252 Margin requirements - Simple long positions**

(24.12.98, abr. 01.01.05)

**11253 Margin requirements - Simple short positions**

(24.12.98, abr. 01.01.05)

**11254 Margin requirements - Paired option positions**

(24.12.98, abr. 01.01.05)

**11255 Acceptable forms of margin**

(24.12.98, abr. 01.01.05)



**11256 - 11260 (Reserved for future use)**

(abr. 01.01.05)

**11261 Capital requirements - general provisions**

(24.12.98, abr. 01.01.05)

**11262 Capital requirements - Simple long positions**

(24.12.98, abr. 01.01.05)

**11263 Capital requirements - Simple short positions**

(24.12.98, abr. 01.01.05)

**11264 Capital requirements - Paired option positions**

(24.12.98, abr. 01.01.05)

**11265 Capital reduction allowed for positions held by members**

(24.12.98, abr. 01.01.05)

**SECTION 11280 - 11400**

**Margin requirements for offsets involving S&P/TSE 60 Stock Index products**

(07.09.99, abr. 01.01.05)

**11280 Basket**

(07.09.99, abr. 01.01.05)

**11281 Multiple Option Combinations involving S&P/TSE 60 Stock Index Options**

(07.09.99, abr. 01.01.05)

**11282 Multiple Option Combinations involving S&P/TSE 60 Stock Index Participation Unit Options**

(07.09.99, abr. 01.01.05)

**11283 S&P/TSE 60 Stock Index Options offset with baskets of S&P/TSE 60 Stock Index securities**

(07.09.99, abr. 01.01.05)

**11284 Baskets of S&P/TSE 60 Stock Index securities offset with S&P/TSE 60 Stock Index Participation Unit Options**

(07.09.99, abr. 01.01.05)

**11285 S&P/TSE 60 Stock Index securities offset with S&P/TSE 60 Stock Index Participation Units**

(abr. 01.01.05)

**11286 S&P/TSE 60 Stock Index Participation Unit Options offset with S&P/TSE 60 Stock Index Options**

(07.09.99, abr. 01.01.05)

- 11287 S&P/TSE 60 Stock Index Options offset with S&P/TSE 60 Stock Index Participation Units**  
(07.09.99, abr. 01.01.05)
- 11288 S&P/TSE 60 Stock Index Futures contracts offset with S&P/TSE 60 Stock Index Participation Units**  
(07.09.99, abr. 01.01.05)
- 11289 S&P/TSE 60 Stock Index Futures contracts offset with Toronto 35 Stock Index Futures contracts**  
(07.09.99, abr. 01.01.05)
- 11290 S&P/TSE 60 Stock Index Futures contracts offset with a basket of Toronto 35 Stock index securities**  
(07.09.99, abr. 01.01.05)
- 11291 Toronto 35 Stock Index Futures contracts offset with a basket of S&P/TSE 60 Stock Index securities**  
(07.09.99, abr. 01.01.05)

**SECTION 11501 - 11600**  
**Capital requirements for offsets involving**  
**S&P/TSE 60 Stock Index products**  
(07.09.99, abr. 01.01.05)

- 11501 Multiple Option Combinations involving S&P/TSE 60 Stock Index Options**  
(07.09.99, abr. 01.01.05)
- 11502 Multiple Option Combinations involving S&P/TSE 60 Stock Index Participation Unit (IPU) Options**  
(07.09.99, abr. 01.01.05)
- 11503 S&P/TSE 60 Stock Index Options offset with a basket of S&P/TSE 60 Stock Index securities**  
(07.09.99, abr. 01.01.05)
- 11504 S&P/TSE 60 Stock IPU options offset with a basket of S&P/TSE 60 Stock Index securities**  
(07.09.99, abr. 01.01.05)
- 11505 S&P/TSE 60 Stock IPUs offset with a basket of S&P/TSE 60 Stock Index securities**  
(07.09.99, abr. 01.01.05)
- 11506 S&P/TSE 60 Stock IPU options offset with S&P/TSE 60 Stock Index options**  
(07.09.99, abr. 01.01.05)
- 11507 S&P/TSE 60 Stock Index options offset with S&P/TSE 60 Stock IPUs**  
(07.09.99, abr. 01.01.05)
- 11508 S&P/TSE 60 Stock Index Futures contracts offset with S&P/TSE 60 Stock IPUs**  
(07.09.99, abr. 01.01.05)

- 11509 S&P/TSE 60 Stock Index options offset with S&P/TSE 60 Stock Index Futures contracts**  
(07.09.99, abr. 01.01.05)
- 11510 S&P/TSE 60 Stock IPU options offset with S&P/TSE 60 Stock Index Futures contracts**  
(07.09.99, abr. 01.01.05)
- 11511 S&P/TSE 60 Stock Index Futures contracts offset with a basket of S&P/TSE 60 Stock Index Securities**  
(07.09.99, abr. 01.01.05)
- 11512 S&P/TSE 60 Stock Index Futures contracts offset with Toronto 35 Stock Index Futures contracts**  
(07.09.99, abr. 01.01.05)
- 11513 S&P/TSE 60 Stock Index Futures contracts offset with a basket of Toronto 35 Stock Index securities.**  
(07.09.99, abr. 01.01.05)
- 11514 Toronto 35 Stock Index Futures contracts offset with a basket of S&P/TSE 60 Stock Index securities**  
(07.09.99, abr. 01.01.05)

**Section 11601 – 11700**

**Margin required on pairings involving S&P/TSE Sectorial Stock Index products**  
(29.04.02, abr. 01.01.05)

- 11601 Sectorial Basket**  
(29.04.02, abr. 01.01.05)
- 11602 Multiple Option Combinations involving S&P/TSE Sectorial Stock Index Options**  
(29.04.02, abr. 01.01.05)
- 11603 Pairing of with S&P/TSE Sectorial Stock Index Options with baskets of S&P/TSE Sectorial Stock Index securities**  
(29.04.02, abr. 01.01.05)

**SECTION 11701 – 11800**

**Capital requirements for pairings involving  
S&P/TSE Sectorial Stock Index products**  
(29.04.02, abr. 01.01.05)

- 11701 Multiple Option Combinations involving S&P/TSE Sectorial Stock Index Options**  
(29.04.02, abr. 01.01.05)
- 11702 Pairing of S&P/TSE Sectorial Stock Index Options with a basket of S&P/TSE Sectorial Stock Index securities**  
(29.04.02, abr. 01.01.05)

**11703 Pairing of S&P/TSE Sectorial Stock Index options with S&P/TSE Sectorial Stock Index  
Futures contracts**  
(29.04.02, abr. 01.01.05)

**RULE FOURTEEN  
FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS**

**ACCOUNTS MANAGEMENT  
(11.03.80, 13.09.05)**

**Section 14001 – 14050  
Miscellaneous**

**14001 General**  
(24.04.84, abr. 13.09.05)

**14002 Definition of Member**  
(abr. 13.09.05)

**14003 Futures Contracts Committee**  
(abr. 13.09.05)

**14004 Delivery through Clearing Corporation**  
(13.09.05)

All deliveries and cash settlements must be made through and assigned by the clearing corporation. At expiry, all open positions must be satisfied by delivery or cash settlement, as may be the case. Delivery or cash settlement in respect thereof must be made in the manner prescribed by the Bourse and the clearing corporation.

**14005 Emergency Situations**  
(01.06.84, 13.09.05)

- a) The Bourse has the power and the authority to act in the event that it determines, the existence of an emergency situation which threatens the integrity, liquidity or orderly liquidation of any class of futures contracts or options on futures contracts. The Bourse may exercise these emergency powers in the event that it has valid reasons to believe that any of the circumstances similar to the following exist:
- 1) a manipulation, attempted manipulation, corner or squeeze is occurring or threatens to occur;
  - 2) the liquidity of a futures contract or options on a futures contract or its orderly liquidation is threatened by the concentration of positions in the hands of entities or individuals who are unable or unwilling to settle or to make or take delivery in the ordinary course;
  - 3) an action of the Government of Canada, of a Canadian provincial government or any foreign government or of any other futures contracts or options on futures contracts market which is likely to have a direct and adverse impact on the integrity, liquidity and orderly liquidation of any futures contracts or options on futures contracts; or
  - 4) an unusual, unforeseeable, and adverse circumstance has occurred.

- b) In the event that the Bourse determines that an emergency situation exists, it may take any of the following actions or any other action that may be appropriate to remedy the situation:
- 1) terminate trading;
  - 2) limit trading to liquidation of futures contracts or options on futures contracts only;
  - 3) order liquidation of all or a portion of an approved participant's accounts;
  - 4) order liquidation of positions as to which the holder is unable or unwilling to settle or to make or take delivery;
  - 5) confine trading to a specific price range or otherwise modify the daily price limit when such a limit exists;
  - 6) modify the trading days or hours;
  - 7) alter conditions of delivery or of settlement;
  - 8) fix the settlement price at which contracts are to be liquidated according to the Rules of the clearing corporation;
  - 9) require additional margins to be deposited with the clearing corporation.
- c) When the clearing corporation informs the Bourse of any emergency situation, whether in progress or apprehended, of which it has become aware, the Bourse shall act within 24 hours to consider appropriate measures, if any. The clearing corporation shall have the right to participate in any deliberation made pursuant to the present article.
- d) As soon as practicable following the imposition of emergency action, the Board of Directors must be promptly notified. Any action taken pursuant to this article may not extend beyond the duration of the emergency. In no event shall actions taken pursuant to this rule remain in effect for more than 90 days following their imposition.

**Section 14051 – 14100**  
**Requirements for Dealing**  
**with Clients**

**14051 Dealing with a Client in Futures Contracts and Options on Futures Contracts**  
(24.04.84, 13.09.05)

No approved participant must have any dealing with any client or prospective client in obtaining, taking or soliciting orders for or advising on trades in futures contracts or options on futures contracts unless at least one partner, director or officer associated with it is qualified as a futures contracts principal and unless the approved participant complies with the Rules of the clearing corporation and the Rules and Policies of the Bourse.

**14052 Approval of Futures Contracts Principal**

(19.10.82, 24.04.84, 13.09.05)

An application for approval as futures contracts principal must be submitted in the form prescribed by the Bourse.

Exemption: Notwithstanding the foregoing provisions of this article, an approved participant is exempted from submitting an application for approval to the Bourse provided an application for approval is submitted to and approved by the self-regulatory organization responsible for the supervision of the concerned approved participant under the agreement establishing the Canadian Investor Protection Fund or, if outside Canada, the regulatory organization in its jurisdiction.

**14053 Qualifications of Futures Contracts Principal**

(24.04.84, 21.08.02, 13.09.05)

The futures contracts principal at the time he first becomes approved and throughout his term of office must have satisfied the applicable proficiency requirements outlined in Policy F-2 of the Bourse.

**14054 Duties of Futures Contracts Principal**

(24.04.84, 21.08.02, 13.09.05)

The futures contracts principal must :

- a) establish, review and maintain procedures to ensure compliance by the approved participant and its partners or directors, officers and employees with the requirements of the Bourse pertaining to the supervision of account opening and account activity in respect of futures contracts and options on futures contracts;
- b) establish, review and maintain procedures and standards for determining whether recommendations made to each client in respect of futures contracts and options on futures contracts are appropriate and in keeping with the client's investment objectives;
- c) obtain, prior to the commencement of any trading activity in any futures contracts or options on futures contracts , the executed futures contracts and options on futures contracts trading agreement required by article 14152 or the letter of undertaking required by sub-paragraph d) of paragraph C of article 14152;
- d) impose any appropriate restriction on futures contracts and options on futures contracts accounts and properly designate accounts and related orders as required by the Rules of the Bourse;
- e) exercise continuous supervision of each day's trading in futures contracts and options on futures contracts and complete a review of each day's trading no later than the next following trading day;
- f) review the cumulative monthly trading activity of each futures contracts and options on futures contracts account, no later than on the date of sending of the monthly statements for the preceding month;
- g) perform such other responsibilities as the Bourse may prescribe from time to time;

The futures contracts principal may, by written instructions, delegate the performance of some or all of the tasks described above except those for which he is personally responsible, to any person whom he has reason to believe is capable of performing the delegated task. Notwithstanding the foregoing, the futures contracts principal shall remain fully responsible for ensuring proper performance of, and compliance with the Rules and Policies of the Bourse relative to all delegated tasks. In addition, he must review the execution of any delegated task to ensure it is adequately performed.

**14055 Approved Futures Contracts and Options on Futures Contracts Representative**  
(13.09.05)

No approved participant must permit any partner, director, officer or employee to have any dealings with any client or prospective client of the approved participant in obtaining, taking or soliciting orders for or advising on trades on futures contracts or options on futures contracts, unless such person has been approved as a futures contracts and options on futures contracts representative by the Bourse or by another self-regulatory organization responsible for the supervision of the concerned approved participant under the agreement establishing the Canadian Investor Protection Fund.

**14056 Application for Approval as Futures Contracts and Options on Futures Contracts Representative**  
(24.04.84, 21.08.02, 13.09.05)

An application for approval as a futures contracts and options on futures contracts representative must be submitted in the form prescribed by the Bourse.

Exemption: Notwithstanding the foregoing provisions of the present article, an approved participant is exempted from submitting an application for approval to the Bourse provided an application for approval is submitted and approved by the self-regulatory organization responsible for the supervision of the concerned approved participant under the agreement establishing the Canadian Investor Protection Fund.

**14057 Qualifications of Futures Contracts and Options on Futures Contracts Representatives**  
(10.03.81, 24.04.84, 21.08.02, 13.09.05)

The applicant must have satisfied the applicable proficiency requirements outlined in Policy F-2 of the Bourse.

**14058 Minimum Number of Registered Futures Contracts and Options on Futures Contracts Representatives**  
(13.09.05)

Every approved participant must have, in each of its branches which has dealings with clients with respect to futures contracts and options on futures contracts at least two (2) registered representatives for futures contracts and options on futures contracts approved by the Bourse and at least one of these representatives must be on duty during the usual business hours of the branch.



**Section 14101 – 14150**  
**Records and Reports**

**14101 Record of Orders**

(24.04.84, 18.04.85, 13.09.05)

A system of record keeping and accounting must be maintained by each approved participant for all orders in futures contracts and options on futures contracts.

Each approved participant that is a clearing approved participant must maintain all records required to be maintained by the clearing corporation.

Without limiting the generality of the foregoing:

- a) each approved participant must keep in his office a record of any order or other instruction given or received with respect to a trade in a futures contracts or in an option on futures contracts, whether executed or not, showing:
  - i) the terms and conditions of the order or instruction and any modification or cancellation of this order or instruction;
  - ii) the account to which the order or instruction relates;
  - iii) where the order relates to an omnibus account, the component accounts within the omnibus account on whose behalf the order is to be executed;
  - iv) where the order or instruction is placed by a person other than the client in whose name the account is operated, the name, or designation, of the person placing the order or instruction;
  - v) the time of the entry of the order or instruction and, where the order is entered pursuant to the exercise of discretionary authority of an approved participant, identification to that effect;
  - vi) if applicable, the time of altering instructions or cancellation; and
  - vii) where applicable, the time of report of execution;
- b) the record of each order filled must show the person who received the order, the time the order is entered, the price and the identity of the approved participant or restricted trading permit holder from or to or through whom the futures contract or option on futures contract was bought or sold;
- c) a copy of all orders must be kept for a minimum period of seven years.

**14102 Reports Pertaining to the Accumulation of Positions for Futures Contracts and Options on Futures Contracts**

(24.04.84, 01.06.84, 13.09.05)

- a) Each approved participant must file with the Bourse, on a weekly basis or as otherwise required by the Bourse, a report, in such form as may be prescribed, giving the name, address and account number of any clients and/or persons controlling this account who hold a position in excess of the reporting limit stipulated by the Bourse for each class of futures contracts or options on futures

contracts . The Bourse may, at its discretion, require reports from one or more approved participants on a smaller number of positions owned or controlled;

- b) in addition to the reports mentioned above, each approved participant must report immediately to the Vice-President of the Regulatory Division of the Bourse any instance in which the approved participant has reason to believe that a client, acting alone or in concert with other persons, has exceeded or is attempting to exceed the position limits established by the Bourse;
- c) for the purpose of the present article and unless specifically exempted by the Bourse, the term "client" includes the approved participant itself, any partner, officer or director of the approved participant, or any participant, as such, in any joint group, syndicate or omnibus account with the approved participant or with a partner, officer or director thereof.

#### **14103 Record of Transactions for Futures Contracts and Options on Futures Contracts**

(24.04.84, 13.09.05)

- a) All transactions of an approved participant in futures contracts and options on futures contracts must, at the time of execution, be recorded by the approved participant. Such record must indicate:
  - i) the trade date;
  - ii) the underlying interest;
  - iii) the expiry month;
  - iv) the quantity;
  - v) whether an opening or closing transaction ;
  - vi) the opposite approved participant or restricted trading permit holder ;
  - vii) the price or, in the case of an option on futures contracts, the exercise price and the premium.
- b) A copy of these records of transactions must be kept for a minimum period of seven years by the approved participant.

#### **14104 Record of Information Statements**

(24.04.84, 13.09.05)

Each approved participant must maintain a record, available for inspection by the Bourse, of all persons to whom the current information statement relating to futures contracts and options on futures contracts or any amendment thereto has been distributed and the date or dates of such distribution.

#### **14105 Bourse's Authority with Respect to Reports**

(24.04.84, 13.09.05)

Each approved participant must file with the Bourse such reports as may be prescribed from time to time by the Bourse.

**Section 14151 – 14200**  
**Conduct of Futures Contracts and Options on Futures Contracts Accounts**

**14151 Opening of Futures Contracts and Options on Futures Contracts Accounts**  
(12.08.80, 31.05.83, 24.04.84, 13.09.05)

No approved participant must have any dealing with any client in futures contracts and options on futures contracts unless:

- a) the client of the approved participant trading or dealing in futures contracts or options on futures contracts has executed a futures contracts and option on futures contracts application form as prescribed by the Bourse and a futures contracts and options on futures contracts trading agreement;
- b) the approved participant has delivered to the client, prior to the first trade made by that client, the current information statement, in respect of futures contracts and options on futures contracts, containing the information prescribed from time to time by the Bourse or by any other regulatory authority and the receipt of such document by the client must be evidenced in writing;

every approved participant must file with the Bourse a copy of the information statement, and every material change thereto, regarding futures contracts and options on futures contracts to be distributed by the approved participant to any client.

- c) the futures contracts and options on futures contracts account has been authorized in writing by the futures contracts principal. In the case of branch offices, the opening of futures contracts and options on futures contracts accounts may be approved by the manager of such branch offices, but such accounts must be authorized in writing within ten business days by the futures contracts principal.

**14152 Futures Contracts and Options on Futures Contracts Trading Agreement**  
(10.03.81, 31.05.83, 24.04.84, 13.09.05)

- A) Every approved participant must obtain from and maintain for each client dealing in futures contracts and options on futures contracts a futures contracts and options on futures contracts trading agreement in writing prescribing such rights and obligations between them as may be determined from time to time by the Bourse.

A futures contracts and options on futures contracts trading agreement between an approved participant and a client must contain and define the following :

- i) the rights of the approved participant to exercise discretion in accepting orders;
- ii) the obligations of the approved participant with respect to errors or omissions and specifications of the time periods, if any, during which orders will be accepted for execution;
- iii) the client's obligation to comply with the provisions of the relevant rules and policies, of the clearing corporation and of the Bourse and in particular, with those relating to position and reporting limits;
- iv) the right of the approved participant, if so required, to provide regulatory or self-regulatory organizations with information and/or reports related to reporting limits and position limits;

- v) the acknowledgment of the client that he has received the current futures contracts and options on futures contracts information statement, unless obtained by other approved means;
- vi) for options on futures contracts, the method of allocation of exercise notices;
- vii) the client's obligation to instruct the approved participant to exercise or close out options on futures contract positions prior to the expiration date and the time limit, if any, set by the approved participant prior to which the client must notify the approved participant of his intention to exercise an option on a futures contract or to close out a position;
- viii) the right of the approved participant to impose trading limits and to close out futures contracts and options on futures contracts under specified conditions;
- ix) the minimum margin deposit required from the client by the approved participant and a mention to the effect that any free credit balance in the account may be commingled with the approved participant's own funds and may be used by it in the conduct of its business;
- x) the consent given, as the case may be, by the client that the approved participant be, from time to time, the counterparty to the client's transactions;
- xi) the obligation of the client in respect of payment of his indebtedness to the approved participant and the maintenance of adequate margin and collateral, including the conditions under which the funds, securities or other property held in the account or any other accounts of the client may be applied to such indebtedness or margin;
- xii) the obligation of the client in respect of payment of commissions on futures contracts and options on futures contracts bought and sold for his account;
- xiii) the obligation of the client in respect of payment of interest on debit balances in his account;
- xiv) the extent of the right of the approved participant to borrow funds and to pledge securities or other assets held in the client's account;
- xv) the extent of the right of the approved participant to use the securities and other assets in the client's account and to hold the same as collateral security for the client's indebtedness;
- xvi) the rights of the approved participant in respect of the realization of assets held in the client's account, whether any prior notice is required and, if notice is required, its nature and extent and the obligation of the client in respect of any deficiency;
- xvii) the extent of the right of the approved participant to utilize securities held in the client's account for its own purposes;
- xviii) where the client also maintains with the same approved participant an account for which the client is charged interest when there is a debit balance in the account, the conditions under which transfer of excess funds will be made between such account and the futures contracts and options on futures contracts account;

- xix) unless provided for in a separate agreement, the authority, if any, of the approved participant to effect trades for the client on a discretionary basis. Where such authority is granted, the client shall be required to sign it in a part separate and prominently marked off from the remainder of the futures contracts and options on futures contracts trading agreement. Such authority must not be inconsistent with any Rules or Policies of the Bourse relating to discretionary accounts;
  - xx) that all trades in futures contracts and options on futures contracts entered into on behalf of the client must comply with the practices and customs of the industry and with the requirements of the Bourse.
- B) The futures contracts and options on futures contracts trading agreement must be governed by the laws of the jurisdiction in Canada in which the approved participant maintains the client's account to which such agreement is applicable.
- C) The provisions of paragraphs A) and B) of the present article do not apply to the opening of a futures contracts and options on futures contracts account by :
- a) an approved participant on its own behalf;
  - b) a dealer opening an account on behalf of his client, if the dealer is required to obtain from and maintain with its clients an agreement substantially similar to the futures contracts and options on futures contracts trading agreement;
  - c) an adviser registered under legislation regulating trading in futures contracts and options on futures contracts; or
  - d) a financial institution,
- from which the approved participant has obtained a letter of undertaking specifying :
- i) that the person opening the futures contracts and options on futures contracts account undertakes to comply with the regulations of any exchange upon which futures contracts and options on futures contracts transactions are to be effected and with the regulations of the relevant clearing corporations, including the regulations establishing position and reporting limits; and
  - ii) where the person opening the account also maintains with the approved participant an account on which interest is charged when there is a debit balance in the account, the conditions under which transfers of excess funds will be made between the accounts, unless provision is made elsewhere in a document signed by the person opening the account.

**14153 Diligence as to Accounts**  
(31.05.83, 24.04.84, 13.09.05)

Every approved participant, dealing with clients in futures contracts and options on futures contracts, must use due diligence to learn the essential facts relative to every client and to every order or account accepted, including :

- 1) before accepting the account of a client for trading in futures contracts and options on futures contracts, make enquiries that :

- a) will enable to establish the identity of the client and, where appropriate :
    - i) the credit worthiness of the client, in accordance with guidelines established by the approved participant; and
    - ii) the reputation of the client, if information known to the approved participant cause doubt whether the client is of good reputation; and
  - b) subject to paragraph 5), will enable it to assess the suitability of trades for the client in view of the markets on which he intends to trade, the level of trading he intends to undertake and his general financial situation and objectives.
- 2) The information required to be obtained pursuant to this article must be determined at the time of completion of the futures contracts and options on futures contracts account application form.
  - 3) Subject to paragraph 5), every approved participant must, as frequently as is appropriate in view of the financial situation of the client, obtain, by direct enquiry to the client or by other means, information enabling the approved participant to determine whether the assessment pursuant to sub-paragraph b) of paragraph 1), of the suitability of trades by the client in the chosen markets continues to be accurate.
  - 4) Every approved participant must, with respect to futures contracts and options on futures contracts accounts, comply with the provisions set forth in section 7451-7475 entitled "Conduct of Accounts", unless otherwise established by this Rule.
  - 5) Sub-paragraph b) of paragraph 1) and paragraph 3) of this article do not apply to an approved participant who effects a trade on the instructions of :
    - a) a commodity trading advisor;
    - b) a financial institution; or
    - c) another approved participant.

Every approved participant must distribute any amendment to the current information statement to each client having a futures contracts and options on futures contracts account within a reasonable period of time.

**14154 Futures Contracts and Options on Futures Contracts Accounts Opened by a Person Other than the Client**  
(13.09.05)

Notwithstanding article 14153, where a futures contracts and options on futures contracts account is opened on behalf of a client by a commodity trading advisor, another approved participant, a Canadian chartered bank, the Business Development Bank of Canada, a trust company or an insurance firm, and

- A) where the person opening the futures contracts and options on futures contracts account executes orders in his own name or identifies the client by means of a code or a symbol, the approved participant must satisfy itself as to the creditworthiness of the person opening the futures contracts

and options on futures contracts account, but shall not otherwise have any responsibility for the suitability of trading for the client of the person who opened the account; and

- B) where the person opening the futures contracts and options on futures contracts account executes orders in the name of its client with no agreement that payment of any options on futures contracts is guaranteed by the person opening the futures contracts and options on futures contracts account, the approved participant must;
- a) obtain full information concerning the client in order to determine its creditworthiness; or
  - b) obtain a letter of undertaking from the person opening the futures contracts and options on futures contracts account, which letter must,
    - 1) indicate that the person is familiar with applicable rules of futures contracts and options on futures contracts account supervision;
    - 2) must contain a covenant to allow the approved participant to make the enquiries provided for in article 14153; and
    - 3) must indicate that the person commits himself to advise the approved participant when, to his knowledge, the client is :
      - i) a partner, an officer, a director or an employee of an approved participant;
      - ii) an associate of an individual referred to in paragraph i); or
      - iii) an affiliate of an approved participant.

But the approved participant shall not have the responsibility for determining the suitability of any trade for the client.

**14155 Trade Confirmations and Monthly Statements**  
(10.03.83, 24.04.84, 28.05.99, 26.03.03, 13.09.05)

**A) Trades Confirmation to the Client**

- 1) The approved participant must promptly furnish to each client a written confirmation of each transaction in futures contracts and in options on futures contract which must at least indicate:
  - a) the date of the transaction and the date of settlement;
  - b) the description of the futures contract or of the option on futures contracts, and the quantity bought or sold;
  - c) the exchange upon which the transaction was made;
  - d) the expiration month and year of the futures contract or, in the case of an option on futures contract, the expiration month and exercise price of the option on futures contract;
  - e) the price at which the futures contract was entered into or, in the case of an option on futures contract, the premium or any consideration;

- f) whether an opening transaction, an offsetting transaction or a delivery;
  - g) the name of the dealer, if any, used by the approved participant as its agent to effect the trade;
  - h) the name of the approved representative for futures contracts and options on futures contract or other person instructed by the client to execute the trade;
  - i) the amount of the commission, if applicable;
  - j) whether the approved participant was acting as agent or principal, and any other information which may be prescribed from time to time by the Bourse.
- 2) Whenever an approved participant has acted in connection with a closing trade in a futures contract or an option on futures contract, he must furnish to the client, in addition to the confirmation required under paragraph 1) above, a statement setting forth the following information:
- a) the dates of the opening and closing trades;
  - b) the prices of the opening and closing trades;
  - c) the gross profit or loss on the transaction;
  - d) the commission and any other fees;
  - e) the net profit or loss on the transaction;
- and any other information which may be prescribed from time to time by the Bourse.
- 3) For the purposes of subparagraphs g) and h) of paragraph 1), a person, a company, a registered representative or an investment representative may be identified in a written confirmation by means of a code or symbols if the confirmation also specifies that the name of the person, company, registered representative or investment representative will be provided to the client on request. An up-to-date list of such identification shall be maintained for review by the Bourse.
- 4) A copy of all confirmations must be kept for five years.

**B) Monthly Statement to Clients**

- 1) A statement of account must be sent at the end of each month to each client having an open position in an account. This statement must at least provide:
- a) the opening cash balance for the month in the client's account;
  - b) all deposits, credits, withdrawals and debits to or from the client's account;
  - c) the closing cash balance in the client's account;



- d) a description of each position; and
  - e) the price at which each trade was entered into.
- 2) A copy of all monthly statements of account must be kept for five years.
  - 3) Every statement of account issued to a client by an approved participant or related company must contain the following notice:

"any free credit balance represents funds payable on demand which, although properly recorded in our books, are not segregated and may be used in the conduct of our business."

In this respect, if on a daily basis the net position in the account of a client has increased in value based on the settlement price for a futures contract on the previous business day, the approved participant carrying such account must upon demand pay the amount of the gain to the client, subject in every case to the right of the approved participant to retain such gain where: a) payment of gain contravenes to other margin, credit or deposit requirements; b) the amount is not important, i.e., \$200 or less; c) it is deemed necessary to secure indebtedness or obligations of other accounts carried by the approved participant for the client.

### **C) Mandatory Content**

- 1) With respect to transactions for managed accounts and discretionary accounts, the written confirmation and the monthly statement of account must be sent directly to the person in whose name the account is carried.
- 2) Every confirmation and every statement of account issued to a client by an approved participant or related company must contain the following notice:

"Clients' accounts are protected by the Canadian Investor Protection Fund within specified limits. A brochure describing the nature and limits of coverage is available upon request."

### **14156 Electronic Delivery** (26.03.03, 13.09.05)

Approved participants may deliver to their clients by electronic means the confirmations and the statements of account, provided that the approved participant complies with Policy C-15 and that:

- i) the client has authorized, in writing, the approved participant to deliver the confirmations or the statements of account by electronic means;
- ii) the electronic transmission procedure has been approved by the Bourse;
- iii) the confirmation or the statement of account delivered electronically complies with all other requirements of the Rules and Policies of the Bourse; and
- iv) the electronic transmission system can, if necessary, reproduce a copy of the confirmation or statement of account.

Exemption: Notwithstanding the foregoing provisions of the present article, the approved participant is exempt from seeking approval by the Bourse, provided approval is sought from and granted by the self-regulatory organization responsible for the supervision of the concerned approved participant, under the agreement establishing the Canadian Investor Protection Fund.

**14157 Position Limits for Futures Contracts and Options on Futures Contracts**

(24.04.84, 30.12.93, 13.09.05)

No approved participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a specific futures contract or options on futures contract if the approved participant has reason to believe that as a result of such transaction the approved participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limit established by the Bourse.

For the purposes of position limit regulations, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, must be aggregated.

A person with authority over one or more managed accounts must not execute or order the execution of transactions for such account or accounts where such transactions, by themselves or in addition to his personal transactions, exceed the limits prescribed under the Rules of the Bourse regarding total positions in any contract.

**Exemptions**

In accordance with the provisions of Policy C-1, an approved participant may file, in the form prescribed, an application to the Bourse, to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed by the Bourse.

A bona fide hedger may also under certain circumstances file directly with the Bourse, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Bourse.

**14158 Open Positions for Futures Contracts and Options on Futures Contracts**

(31.05.83, 24.04.84, 13.09.05)

All futures contracts and options on futures contracts for a client or non-client account must remain open until liquidated by a closing transaction, by delivery, by cash settlement or failure to perform as provided in the rules of the exchange where such contracts are traded and the clearing corporation.

**14159 Transfer of Accounts**

(24.04.84, 13.09.05)

Every approved participant must, upon the written request of a client, cooperate in transferring the client's account to any other approved participant who trades in futures contracts and options on futures contracts and is in compliance with the requirements of the Bourse relating to futures contracts and options on futures contracts, provided that the client's request includes a statement by the approved participant to whom the account is to be transferred agreeing to accept the account. No commissions must be charged for such transfers by the approved participant from or to whom the account is being transferred.

**14160 Discretionary and Managed Accounts for Futures Contracts and Options on Futures Contracts**  
(24.04.84, 13.09.05)

Prior to accepting to operate a discretionary futures contracts and options on futures contracts account, the account must be approved as such in writing by the futures contracts principal who must approve and initial each discretionary order on the day entered. Discretionary accounts must be subjected to frequent and appropriate reviews by the futures contracts principal.

In addition, no approved participant must accept or carry a futures contracts or options on futures contracts account over which any individual or organization, other than the person in whose name the account is carried, exercises trading authority or control, hereinafter referred to as managed account, unless:

- a) the account is opened with a minimum deposit amount of \$5,000 and maintains a minimum equity of \$3,750 regardless of lesser applicable margin requirements. In determining such equity, the accounts balances and positions in all futures contracts and options on futures contracts traded by the approved participant must be included;

whenever at the close of any business day the equity in any such account, calculated with all open positions valued at the settlement price, is below the required minimum, the approved participant must immediately notify the client in person, by telephone or by any other means with written confirmation of such notice, sent directly to the client not later than the close of the following business day. Such notice must advise the client that unless additional funds are promptly received to restore the client's managed account to an equity of not less than \$5,000, the approved participant shall liquidate all the client's positions;

in the event the call for additional equity is not met within a reasonable time, the client's entire positions must be liquidated unless, in the alternative, the client has, in writing, revoked the discretionary authority and continues to maintain the account on a non-discretionary basis. No period of time in excess of five business days shall be considered reasonable unless such longer period is approved in writing by the futures contracts principal upon good cause;

- b) the person or organization in whose name the account is carried has executed and delivered to the approved participant a power of attorney, trading authorization, or other document by which discretionary authority or management of the account is clearly delegated and in which the person or approved participant to whom such powers are delegated is clearly designated;

the power of attorney, trading authorization, or other document by which trading authority is given, must be in writing and must show the date it was entered into. Such authorization shall be automatically terminated 12 months thereafter, unless renewed in writing by the person for whom the account is carried or unless terminated earlier by a written revocation signed by such person or by the death or incapacity of such person;

revocation may also be made by the person to whom such power has been delegated provided it is done in writing. Copies of all revocations must be kept in the files of the concerned clients and, upon demand, be made available to the Bourse for examination;

- c) a document, in a form acceptable to the Bourse, signed by the person in whose name the account is carried, must be kept by the approved participant whenever power of attorney is given to a person who is not an approved participant or who is not employed by an approved participant;
- d) the approved participant maintains at the disposal of the Bourse the details of each managed account by name or other means of identification;
- e) the records of the approved participant clearly identify each managed account it carries;
- f) the approved participant has obtained in writing, from the person or persons in whose name the account is carried, the essential facts relating to the financial resources of such person or persons.

**14161 Special Notice to Clients Pertaining to Discretionary and Managed Accounts for Futures Contracts and Options on Futures Contracts**  
(24.04.84, 13.09.05)

Upon the opening of a discretionary or managed account, or upon the granting of discretion with respect to an account already opened, each approved participant must promptly send to the person or persons for whom such account is carried, a letter stating clearly and to the satisfaction of the Bourse the requirements set forth in this Rule pertaining to such account.

**14162 Presumption of Authority in Futures Contracts and Options on Futures Contracts Accounts**  
(24.04.84, 13.09.05)

Except where specifically noted and confirmed to the client as "discretion not exercised", every trade in an account over which any individual or organization, other than the person in whose name the account is carried, exercises trading authority or control, shall be presumed to have been made pursuant to such trading authority or control and shall be subject to the requirements of this Rule. Nominal joint accounts in which the individual or organization exercising authority or control has only a nominal interest shall be considered managed accounts and shall be subject to the requirements of this Rule.

The power of attorney, trading authorization, or other document by which trading authority or control is relinquished, shall be terminated only by written revocation signed by the person in whose name the account is carried or by the death of that person.

Revocation may also be made by the person to whom such power has been delegated and such revocation must be in writing. Copies of all revocations must be kept in file by the approved participant and, upon request, made available to the Bourse.

**14163 Exceptions to the Requirements Pertaining to Managed and Discretionary Futures Contracts and Options on Futures Contracts Accounts**  
(24.04.84, 13.09.05)

The provisions pertaining to managed and discretionary accounts do not apply to:

- 1) accounts maintained by persons for their immediate families, except with regard to position limits as set forth in article 14157. Members of one's immediate family include husband and wife, brothers, sisters, parents, grandparents, children and in-laws;

- 2) accounts handled by a partner or an officer of an approved participant for another partner or officer of the same firm.

**14164 Futures Contracts and Options on Futures Contracts Managed Accounts**

(24.04.84, 13.09.05)

For the purpose of articles 14164 to 14174 inclusive:

"commingled funds investment portfolio" means an investment portfolio of a bank, trust company, loan company, insurance company, mutual fund or pension plan, including a profit sharing or deferred profit sharing or other retirement savings or similar plan but excluding a self-administered retirement savings plan;

"managed account" means an investment portfolio of a client managed by an approved participant or a related firm through discretionary authority granted by the client on a continuing basis, whether in consideration of fees or otherwise, where:

- i) such investment portfolio is a commingled funds investment portfolio, or
- ii) the management of such investment portfolio by the approved participant or related firm arises because such approved participant or related firm has held itself out or has described itself as having special skills or ability regarding the management of investment portfolios.

Notwithstanding the foregoing, the term "managed account" does not include:

- i) the management of an investment portfolio on a temporary basis at the written request of a client because of the inability of the client to communicate instructions by reason of absence, illness or any other reasonable cause, or
- ii) the management of an investment portfolio on a continuing basis by a partner or director of an approved participant in reason of a personal relationship between such partner or director and the client where such management was in effect at the time the present article came into effect;

"futures contracts and options on futures contracts portfolio manager" means any partner, director, officer or employee of an approved participant or related firm designated in writing by the approved participant or by the related firm to manage managed accounts dealing in futures contracts or options on futures contracts;

"responsible person" means the approved participant, any related firm, and any individual who is a partner, director, officer or employee of any approved participant or related firm if the approved participant, the related firm or the individual participates in the formulation of investment decisions made on behalf of a managed account or has access to such decisions before their implementation or to advice given with regard to these accounts.

**14165 Obligation to comply**

(24.04.84, 13.09.05)

Each approved participant or related firm that manages a managed account must comply with the provisions of articles 14166 to 14174, in connection with each such managed account.

**14166 Written Authorization**

(24.04.84, 13.09.05)

No approved participant or any related firm or any person acting on its behalf, must exercise any discretionary authority with respect to a managed account on futures contracts or options on futures contracts unless the individual who is responsible for the management of such accounts has been designated as a futures contracts and options on futures contracts portfolio manager, the client has given prior written authorization to the approved participant or related firm, as the case may be, and the latter has accepted the managed account. Such acceptance must be evidenced by a document signed on behalf of the approved participant or related firm by a partner, director or officer of the approved participant or related firm, as the case may be. The authorization given to the approved participant or related firm, as the case may be, must specify the investment objectives of the client with respect to the particular account. Such authorization or acceptance may be terminated by notice in writing by the approved participant, the related firm or the client, as the case may be. Notice of termination of authority by the client shall be effective on receipt of the written notice by the approved participant or related firm except with respect to transactions entered into prior to the receipt of such notice. Notice of termination of acceptance by the approved participant or related firm shall be effective on the date specified therein which date must not be earlier than thirty (30) days from the mailing of the written notice to the client.

**14167 Designation of a Person with Supervisory Authority**

(24.04.84, 13.09.05)

The approved participant or related firm must designate in writing one or more partners, directors or officers who shall assume supervisory responsibility for each managed account and the client must be advised in writing of the name of such person or persons designated to supervise each managed account. The failure to advise the client in writing of the name of the person or persons supervising his managed account shall not vitiate the authority of the approved participant or related firm to manage the client's account.

**14168 Designation as a Portfolio Manager or as Associate Portfolio Manager**

(24.04.84, 21.08.02, 13.09.05)

Designation as a futures contracts and options on futures contracts portfolio manager or associate portfolio manager must be made where the proposed manager has satisfied the applicable proficiency requirements outlined in Policy F-2 of the Bourse.

**14169 Portfolio Management Committee**

(24.04.84, 13.09.05)

Each approved participant or related firm (other than an approved participant or related firm that has less than two partners, directors or officers) that has managed accounts must form a portfolio management committee to be composed of two or more individuals who must be partners, directors or officers approved to deal in futures contracts and options on futures contracts and at least one of whom must not be a futures contracts portfolio manager of the approved participant or related firm, as the case may be. The portfolio management committee must review not less than once in each quarter of any twelve month period the investment policies of the approved participant or related firm in respect of its managed accounts and record the results of each such review in writing.

**14170 Quarterly Review of Managed Accounts**

(24.04.84, 13.09.05)

Each managed account must be reviewed at least four times in each twelve-month period, preferably quarterly, by the futures contracts and options on futures contracts principal of the approved participant or related firm, as the case may be, to ensure that the investment objectives of the client are diligently pursued and that the account is managed in accordance with this Rule.

**14171 Investment Policies**

(24.04.84, 13.09.05)

The approved participant or related firm must maintain standards directed to ensuring fairness in the allocation of investment opportunities among its managed accounts and a copy of the established policies must be furnished to each client and kept available for inspection by the Bourse.

**14172 Fees Agreement**

(24.04.84, 13.09.05)

The approved participant or related firm may charge each client directly for services rendered to the managed account but, except with the written agreement of the client, such charge must not be contingent upon profits or performance.

**14173 Separate and Distinct Supervision for each Managed Account**

(24.04.84, 13.09.05)

The approved participant or related firm must ensure that each managed account is supervised separately and distinctly from other managed accounts, but an order placed on behalf of one managed account may be pooled with that of another managed account.

**14174 Code of Ethics**

(24.04.84, 13.09.05)

The approved participant or related firm must obtain an undertaking from each responsible person not to trade for his or its own account, as the case may be, or to knowingly permit or arrange for any associate to trade in reliance upon information as to trades made or to be made for any managed account. The approved participant or related firm, as the case may be, must establish and maintain procedures, satisfactory to the Bourse, designed to disclose when a responsible person or an associate of such a responsible person has contravened that undertaking.

Where there has been a material change in the ownership or control of the approved participant or of a related firm where it is proposed that a managed account be sold or assigned in whole or in part to another approved participant, the approved participant must, prior to such sale or assignment or immediately after such change, as the case may be, give a written explanation to the client of the proposal or change and must inform the client of his right to terminate the management mandate.

**14174 Omnibus Accounts**  
(24.04.84, abr. 13.09.05)

**Section 14201 – 14250**  
**Margins**

**14201 Margin Requirements on Futures Contracts and Options on Futures Contracts**  
(24.04.84, 13.09.05)

The margin requirements applicable to all positions in futures contracts and options on futures contracts listed on the Bourse and held by an approved participant or on behalf of its clients are determined, from time to time by the Bourse, in collaboration with the clearing corporation.

Margin requirements established by the Bourse may be made applicable to one or more rather than all approved participants or clients if deemed necessary by the Bourse.

- 1) Every client and non-client position must be marked to the market daily.
- 2) Every approved participant must collect from its clients and non-clients for whom trades in futures contracts or options on futures contracts are effected, a margin (which margin must be maintained) of not less than the minimum prescribed under the rules or regulations of the futures exchange on which the contract is traded (or its clearing corporation).
- 3) Every approved participant must collect from each of its clients and non-clients for whom trades are effected through an omnibus account the amount of margin that would be required from such clients and non-clients if their trades were effected through fully-disclosed accounts.
- 4) The Bourse may, in its discretion, require one or more or all approved participants to collect from one or more or all clients or non-clients for whom trades in futures contracts or in options on futures contracts are effected an amount of margin greater than the minimum prescribed under the rules or regulations of the futures exchange on which the contract is traded (or its clearing corporation). The Bourse may set such requirements with respect to any or all contract positions of a client or non-client.

**Note:** Many futures exchanges (especially in the United States) prescribe margin requirements based on initial and maintenance rates. In such cases, when a contract is entered into, the approved participant must collect from the client an amount of margin not less than the prescribed initial margin rate. Subsequently, adverse price movements in the value of the futures contracts may reduce the client's margin on deposit to an amount below the maintenance margin level. When this happens the approved participant must then collect from the client a further amount sufficient to restore the margin on deposit to the initial rate.

**14202 Orders in Undermargined Client Accounts**  
(24.04.84, 13.09.05)

Approved participants must not accept orders for new trades from a client unless the minimum amount of margin for the new trades is on deposit or is forthcoming within a reasonable time and unless the margin on that client's pre-existing open positions complies with the margin requirements established by the Bourse or is forthcoming within a reasonable time. Client credits in excess of margin requirements on all open positions may be allocated to the margin on a new commitment.



**14203 Margin Calls**  
(24.04.84, 18.04.85, 13.09.05)

An approved participant may call for additional margins at his discretion, but whenever a client's margin is below the minimum amount required, the approved participant must call for such additional margin necessary to bring the account up to the required level, and the amount of such additional margin must, each time a margin call is made, be calculated to be no less than the amount of the liability of the approved participant to the clearing corporation, for margin in respect of the same open position, as if no other positions were at that time registered with the clearing corporation.

If within a reasonable delay the client fails to comply with such demand, the approved participant may close out all of the client's positions or sufficient positions to restore the client's account to the required margin status.

If the approved participant is unable to contact the client, a written demand sent to or left at the client's place of business or at the address provided by him to the approved participant shall be deemed sufficient.

Approved participants must keep a written record of all margin calls, whether they made in writing, by telephone or by other means of communication.

**14204 Closing out of Client's Positions**  
(24.04.84, 13.09.05)

In the event of the failure of an approved participant to maintain client margins as required under this Rule, the Bourse may order such approved participant to immediately close out all or such part of the positions on his books in order to correct the margin deficiency.

**14205 Margins on Day Trading**  
(10.03.81, 24.04.84, 13.09.05)

An approved participant may use his discretion in permitting a client having an established account to make day trades without margining each transaction, provided that any such transactions which are not closed out on the same day shall be subject to the full amount of margin required.

**14206 Intercommodity or Intermarket Spread Margins**  
(24.04.84, 13.09.05)

Intercommodity or intermarket spread margins must be those determined from time to time by the Bourse.

**14207 Definition of a Bona Fide Hedge**  
**(ex-14371)**  
(24.04.84, 13.09.05)

Bona fide hedging transactions and positions are transactions or positions in futures contracts or in options on futures contracts or transactions to be made or positions to be taken at a later time in the cash market, which are economically appropriate to the reduction of risks in the conduct and management of a commercial enterprise and which arise from:

- a) the potential change in the value of assets which a person owns, or merchandises or anticipates owning, or merchandising;
- b) the potential change in the value of liabilities which a person owes or anticipates incurring;
- c) the potential change in the value of services which a person provides, purchases or anticipates providing or purchasing.

Notwithstanding the foregoing, no transactions or positions shall be considered as bona fide hedges for the purposes of this Rule unless their purpose is to offset price risks incidental to commercial cash operations and unless the relevant provisions of this Rule have been satisfied.

**14208 Bona Fide Hedger Accounts**

(24.04.84, 30.12.93/13.09.05)

An approved participant must not maintain an account in respect of a bona fide hedger unless the following conditions have been satisfied:

- a) the prospective hedger has stated that:
  - 1) the intended positions will be bona fide hedges;
  - 2) the hedges are necessary or advisable as an integral part of his business (fully explaining the nature and extent of his business);
- b) the hedge positions are kept in a separate hedge account in the records of the approved participant;
- c) the hedger complies with whatever limitations or requirements the Bourse imposes in connection with such hedges;
- d) the hedger complies with all applicable Rules and Policies of the Bourse;
- e) hedges are made in an orderly manner in accordance with sound commercial practices, and are not initiated or liquidated in a manner that would cause unreasonable price fluctuations or unwarranted price changes.

**14209 Deductions from Net Allowable Assets – Futures Contracts and Options on Futures Contracts**

(13.09.05)

- 1) Every approved participant's positions in futures contracts and options on futures contracts must be marked to market daily and any difference must be charged or credited to profit and loss.
- 2) Unless otherwise determined by the Bourse, every approved participant must deduct from its net allowable assets, in relation to its principal positions in futures contracts and options on futures contracts, the amount sufficient to provide margin for such positions. Unless the Bourse specifies a higher rate as the basis for these deductions from net allowable assets, such deductions must be based on the margin rate set by the futures exchange on which the relevant contract was entered into (or its clearing corporation). Where the margin requirements of a futures exchange are based on an initial

margin rate and a maintenance margin rate, the approved participant's deduction for principal positions must be based on the initial margin rate. Where the futures exchange does not use a two-tier system but a unique rate of margin, the latter must be deducted from the approved participant's net allowable assets.

- 3) The requirements of paragraphs 1 and 2 above also apply to market makers' accounts.
- 4) Unless otherwise determined by the Bourse, every approved participant must deduct from its net allowable assets an amount sufficient to provide for any margin deficiency in its client and non-client accounts.

Unless the Bourse prescribes a higher rate as the basis for determining margin deficiencies for the purpose of making deductions pursuant to this paragraph, such deductions must be made in relation to margin deficiencies as defined below. According to this definition, where a maintenance margin level is specified by the futures exchange on which the relevant contract was entered into (or its clearing corporation), the margin deficiency if any must be determined on the basis of such maintenance margin level, and the amount so determined must be deducted from the approved participant's net allowable assets. Where the futures exchange does not use a two-tier system but a unique rate of margin, the latter must be used to determine the margin deficiency.

**Note:** For the purposes of this paragraph, "margin", "margin rate" and "margin requirement" where used with respect to futures contracts or options on futures contracts mean : the minimum dollar amount per contract prescribed under the rules and regulations of the futures exchange on which the contract was entered into (or its clearing corporation) that must be deposited with an approved participant for the purpose of ensuring performance of obligations under the contract and includes, where applicable, "original margin" or "initial margin", being the amount that must be deposited entering the contract, and "variation margin", or "maintenance margin", being the amount that must be deposited by a party to the contract to restore margin on deposit to original margin or initial margin when the margin on deposit falls under the prescribed "maintenance level" because of adverse movement in the price of the futures contract, or such greater amounts as the Bourse in its discretion may require.

"margin deficiency", where used with respect to a client's or non-client's account, including such accounts for which trades are effected through an omnibus account, means, in relation to the calculation of risk adjusted capital, the amount by which margin on deposit in the client's or non-client's account is at any time, below:

- a) the maintenance level, where the futures exchange upon which the contract was entered into or its clearing corporation prescribes such a level; or
- b) the margin prescribed under the rules or regulations of the futures exchange upon which a futures contracts was entered into (or its clearing corporation) where no maintenance level is prescribed; or
- c) such greater amount as the Bourse in its discretion may require.

**Section 14251 – 14300**  
**Requirements for Dealing with**  
**U.S. Clients in**  
**Mercantile Futures Contracts**

**14251 Definitions**

(18.04.85, abr. 13.09.05)

**14252 Obligations of Members Dealing with U.S. Clients**

(18.04.85, abr. 13.09.05)