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

CIRCULAR
September 21, 2005

NEW PRODUCTS OF THE BOURSE
CURRENCY OPTION CONTRACTS
OPTIONS ON THE U.S. DOLLAR (USX)

On **Monday, September 26, 2005**, Bourse de Montréal Inc. (the Bourse) will introduce currency option contracts. The first currency option contract to be listed will be the option on the U.S. Dollar (USX).

Herein enclosed are the amendments to the Rules of the Bourse and contract specifications approved by the Autorité des marchés financiers regarding currency option contracts. Amendments to the Rules will be effective as of September 26, 2005.

The Bourse will assign approved participants to act as market makers on the USX.

A CDCC circular listing the associated symbols, strike prices and margin intervals for the USX is included as Annex 1.

Please note, that call and put options on U.S. Dollars are eligible for inclusion in a Registered Retirement Savings Plan (RRSP) and in the following deferred income plans: Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and Deferred Profit Sharing Plans (DPSPs).

It is to be noted that the USX cannot be offered in the United States since this is not a contract approved by the United States Securities and Exchange Commission (SEC).

A product description leaflet is available on the Bourse website at http://www.m-x.ca/f_publications_en/currency_options.pdf. Should you need further information, do not hesitate to call us at 1 (866) 871-7878, or e-mail us at options@m-x.ca.

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

Circular no.: 137-2005
Amendment no.: 009-2005

Currency Options

Specifications

Underlying Currency	❖ U.S. Dollar; ❖ Euro
Trading Unit	❖ $10,000 U.S. Dollars; ❖ €10,000 Euros
Contract Months	The first three months plus the next two quarterly months in the March, June, September, December cycle. Annual expiry of January for terms of 1 year or greater (long term).
Exercise Price	Exercise prices are expressed in cents per unit of foreign currency. For example, CAD 120.50¢ equivalent to CAD$1.2050.
Exercise Price Intervals	Exercise price intervals are set at a minimum of CAD 0.50¢ per unit of foreign currency.
Premium Quotation	Option premiums are quoted in Canadian cents per unit of foreign currency. For example, a premium quotation of CAD 0.75¢ for an option on the U.S. dollar represents an aggregate premium value of CAD 0.75¢/US$ x US$10,000 x CAD$1/CAD100¢ = CAD$75.
Minimum Price Fluctuation (tick size)	The minimum price fluctuation of the premium is CAD 0.01¢ or a tick value of CAD$1 per unit of foreign currency. That is: CAD 0.01¢/US$ x US$10,000 x CAD$1/CAD100¢ = CAD$1.
Aggregate Premium Value	The aggregate premium value for a contract is the premium quotation multiplied by the trading unit of a contract.
Exercise Style	European style. Options may be exercised only on the expiration date.
Exercise Settlement	Cash settlement. The amount to be paid or received in final settlement of each option contract is determined by multiplying the trading unit by the difference between the exercise price and the Bank of Canada noon rate expressed in Canadian cents for the designated currency vis-à-vis the Canadian dollar on the expiration date.
Expiration Date / Last Trading Day	At 12:00 p.m (ET), on the third Friday of the expiration contract month.
Reporting Level	500 contracts. As specified in Rule Six of the Bourse
Position Limits	40,000 contracts. As specified in Rule Six of the Bourse.
Minimum Margin Requirements	As specified in Rule Nine of the Bourse.
Trading Hours	9:30 a.m. to 4:00 p.m. (ET)
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	❖ USX - U.S. Dollar ❖ EUX - Euro

6602 Qualification for Underlying Interests
(13.03.87, 31.05.88, 10.11.92, 07.09.99, 28.01.02, 26.09.05)

Products qualify as underlying interests provided they meet certain requirements.

a) Every equity issue shall be listed on a Canadian Exchange, meet the criteria of the Canadian Derivatives Clearing Corporation, or be a security recommended for approval by the Bourse.

b) In the case of Government of Canada Bonds, every issue shall have an outstanding amount of at least $500,000,000 face value at maturity.

c) A Futures contract must be listed on the Bourse.

d) In the case of a currency, it must have been priorily approved by the Bourse.

e) In order for a Canadian sponsored option to be traded on the Bourse, the underlying interest must satisfy the options eligibility criteria defined in the Canadian Derivatives Clearing Corporation Rules.

f) In order for an international sponsored option to be traded on the Bourse, the underlying interest must be currently traded on a recognized exchange and there must be options or futures contracts listed on this same exchange or on any other recognized exchange.

For the purpose of the present Rule, the term "recognized exchange" means any exchange carrying on its activities on the territory of one of the Basle Accord Countries and those countries that have adopted the banking and supervisory rules set out in the Basle Accord, and any other exchange or group of exchanges with whom the Bourse has signed a collaboration agreement.

g) In the case of an index sponsored option, the sponsor must have a licensing rights agreement with the index supplier. A copy of the agreement must be filed with the Bourse before the sponsored option is launched.

6624 Minimum Quotation Fractions
(13.03.87, 19.05.87, 20.03.91, 10.11.92, 07.04.94, 15.04.96, 07.09.99, 11.02.00, 28.01.02, 26.09.05)

The minimum quotation spread shall be:

a) Equity options

under $0.10	$0.01
$0.10 or more	$0.05

b) Index participation unit options

under $0.10	$0.01
$0.10 or more	$0.05

c) Index options

under 0.10 index points	0.01 index points
0.10 index points or more	0.05 index points

d) Bond options $0.01

e) Futures options 0.01 point

f) Sponsored options $0.001 or as otherwise determined in consultation with the Canadian Derivatives Clearing Corporation and with the sponsor.

g) Currency options CAN 0.01 cent per unit of foreign currency

6637 Expiration Date
(06.08.86, 20.03.91, 17.12.91, 10.11.92, 07.04.94, 07.09.99, 11.02.00, 28.01.02, 26.09.05)

a) No transaction of options contracts in expiring series shall be made after the close of trading on the last day of trading.

b) In the case of equity options, bond options and options on index participation units, the expiration date shall be the Saturday following the third Friday of the expiration month. In the case of index options, the expiration date shall be the third Friday of the contract month or, if the index is not published on that day, the first preceding trading day for which the index is scheduled to be published. In the case of futures options, the expiration date shall be the last trading day. In the case of currency options, the expiration date shall be the third Friday of the expiration month or, if the Bank of Canada exchange rate fixing is not published that day, the expiration date shall be the first preceding trading day for which the Bank of Canada exchange rate fixing is scheduled to be published.

c) In the case of sponsored options, the expiration date is determined by the sponsor as per the information provided to investors and the Bourse or as provided in the product documentation and set out in article 6643 of the Rules of the Bourse.

6651 Position Limits
(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91,10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05)

A) Except as provided in paragraph D) of this article, no approved participant or restricted permit holder shall make for any account in which it has an interest, or for the account of any client, an opening transaction if the approved participant or the restricted permit holder has reason to believe that as a result of such transaction the approved participant or its client, or the restricted permit holder would, acting alone or in concert with others, directly or indirectly, hold, control or be obligated with respect to a position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the position limits established by the Bourse.

B) Except otherwise indicated, the applicable position limits are as follows:

1. Stock or index participation unit options

   a) 13,500 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of this article;

   b) 22,500 contracts, where either the most recent interlisted six-month trading volume of the underlying interest totals at least 20 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 15 million shares and at least 40 million shares are currently outstanding;

   c) 31,500 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 40 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares and at least 120 million shares are currently outstanding.

   d) 60,000 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 80 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares and at least 240 million shares are currently outstanding.

   e) 75,000 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 100 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares and at least 300 million shares are currently outstanding.

2. Debt options

   8,000 contracts;

3. Index options

   50,000 contracts;

4. Options on futures

   The number of contracts established as the position limits for the underlying futures contract.

   For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.

5. Sponsored options

   The position limits described above apply to sponsored options. However, these position limits must be adjusted by using an equivalent unit of trading.

When the underlying interest is traded on a market other than the Bourse, the position limits of this market apply to sponsored options by using an equivalent unit of trading.

6. Currency options

   40,000 contracts when the trading unit is 10,000 units of foreign currency. The limit will be adjusted to obtain the same notional amount if the trading unit is amended or if the Bourse introduces new trading units.

C) For the purpose of this article:

1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;

2. the account of an individual member or of the holder of a restricted trading permit will not be counted with that of his clearing member unless the clearing member has an interest in the account;

3. the Exchange may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Exchange and reasonable notice shall be given of each new position limit.

D) Conversions, reverse conversions, long and short hedges

1. For the purposes of this article the following defined hedges are approved by the Exchange:

   a) conversion: where an opening long put transaction in any option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest of the option;

   b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest of the option;

   c) short hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;

   d) long hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option.

2. In addition to the options position limits set out in paragraph B), any one account may hold an amount not exceeding the applicable paragraph B) limit of any combination of the approved hedge positions defined in sub-paragraphs D) 1. a) to D) 1. d), inclusive.

3. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

E) Exemption

As described in Policy C-1, a member may file with the Exchange an application to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed in this article. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted. A bona fide hedger may also under certain circumstances file directly with the Exchange, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Exchange.

6654 Reports Related to Position Limits
(05.08.75, 15.11.79, 24.04.84, 20.03.91, 10.11.92, 07.04.94, 07.09.99, 11.02.00, 28.01.02, 26.09.05)

a) Each approved participant shall file with the Bourse, no later than three business days following the last business day of each week, a report in such form as may be prescribed, giving the name and address of any client who, on the last business day of any week, held aggregate long or short positions in excess of:

i) 250 contracts, in the case of stock and bond and 500 contracts, in the case of index participation units;

ii) 1,500 contracts, in the case of index options;

iii) 500 contracts, for currency options;

iv) 250 options or futures equivalent contracts (as defined in article 6651) with respect to a position involving the option and the underlying futures contract, in the case of options on Government of Canada Bond futures;

v) 300 options or futures equivalent contracts (as defined in article 6651) with respect to a position involving the option and the underlying futures contract, in the case of options on Canadian Bankers' Acceptance futures;

on the same side of the market in any single class. The report shall indicate for each such class of options, the number of contracts comprising each such position and, in the case of short positions, whether covered or uncovered.

vi) The position limits requirements described above apply to sponsored options by using an equivalent unit of trading.

b) In addition to the reports required above, each approved participant shall report immediately to the Bourse any instance in which the approved participant has reason to believe that a client, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established in article 6651.

c) For the purposes of this article, the term "client" in respect to any approved participant shall include the approved participant, any general or special partner of the approved participant, any officer or director of the approved participant, or any participant, as such, in any joint group or syndicate account with the approved participant or with a partner, officer or director thereof.

6674 Payment of Underlying Interest
(19.05.87, 20.03.91, 10.11.92, 07.09.99, 28.01.02, 26.09.05)

a) In the case of cash-settled options, delivery will be made in accordance with article 6676;

b) In the case of stock and bond options and sponsored options, clearing of transactions in the underlying interests arising from exercise notices will be through the facilities of the Canadian Depository for Securities Ltd. or in another manner prescribed by the Bourse and the Canadian Derivatives Clearing Corporation;

c) In the case of futures options, the clearing of transactions arising from exercise notices will be through the facilities of the Canadian Derivatives Clearing Corporation.

6676 Settlement and Delivery in the Case of Cash Settled Options
(24.04.84, 06.08.86, 10.11.92, 07.09.99, 31.01.01, 29.04.02, 26.09.05)

a) Settlement of positions held in the S&P/TSE 60 Stock Index option following an exercise shall be made by an exchange of cash between the Clearing Corporation and each of the short and long clearing members pursuant to the rules of the Clearing Corporation. The amount to be paid or received in final settlement of each S&P/TSE 60 Stock Index option contract is determined by multiplying $100 by the difference between the strike price and the official opening level of the S&P/TSE 60 Stock Index on the expiration date, expressed to two decimal places.

b) Settlement of options positions held in the S&P/TSE sectorial indices following an exercise shall be made by an exchange of cash between the Clearing Corporation and each of the short and long clearing members pursuant to the rules of the Clearing Corporation. The amount to be paid or received in final settlement of each S&P/TSE sectorial index option contract is determined by multiplying the trading unit by the difference between the strike price and the official opening level of the S&P/TSE sectorial index on the expiration date, expressed to two decimal places.

c) Settlement of positions held in cash settlement sponsored options following an exercise must be made by an exchange of cash between the clearing corporation and each of the clearing approved participant holding a position pursuant to the Rules of the Canadian Derivatives Clearing Corporation. The amount to be paid or received in settlement of each sponsored option contract is determined by multiplying the unit of trading by the difference between the exercise price of the sponsored option and the price of the underlying interest as determined by the Bourse, multiplied by the designated CAN$/foreign currency exchange spot rate.

d) Settlement of positions held in currency option following an exercise shall be made by an exchange of cash between the Clearing Corporation and each of the short and long clearing members pursuant to the rules of the Clearing Corporation. The amount to be paid or received in final settlement of each currency option contract is determined by multiplying the unit of trading by the difference between the strike price and the Bank of Canada "Noon rate" expressed in Canadian cents for the corresponding currency vis-à-vis the Canadian dollar on the expiration date.

CURRENCY OPTIONS

Section 6790 – 6799
Specific Rules Concerning
the Contract Specifications
(26.09.05)

6790 Application of Specific Rules
(26.09.05)

In addition to articles 6571-6700 of the Rules, currency options shall be subject to the Rules contained in this section.

6791 Nature of Options
(26.09.05)

A buyer of one currency option may exercise his option only on the expiration date ("European style") to receive a cash payment equal to the difference between the strike price and the Bank of Canada "Noon rate" on the expiration date, as provided for in article 6676 d) of the Rules.

The seller of one currency option, if the option is exercised, has the obligation of rendering payment equal to the difference between the strike price and the Bank of Canada "Noon rate" on the expiration date, as provided for in article 6676 d) of the Rules.

6792 Trading Unit
(26.09.05)

The trading unit for one option contract shall be 10,000 units of foreign currency, or a multiple thereof.

6793 Strike Prices
(26.09.05)

Strike prices are set at a minimum interval of CAN 0.50 cents per unit of foreign currency unless otherwise determined by the Bourse.

6794 Minimum Price Increment (Tick Size)
(26.09.05)

The minimum tick size shall be CAN 0.01 cent per unit of foreign currency unless otherwise determined by the Bourse.

6795 Last Trading Day
(26.09.05)

Currency options shall cease trading on the Expiration Date of the contract month, as defined in article 6637 b) of the Rules.

Section 9601 – 9650
Margin Requirements on Currency-Related Derivatives

9601 Exchange Traded Currency Options – General Provisions
(26.09.05)

a) The Bourse has established margin requirements applicable to currency option positions held by clients and no approved participant must effect a transaction on these options or carry an account for a client without proper and adequate margin, which must be obtained as promptly as possible and maintained in conformity with the provisions of the present section;

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

c) each currency option must be margined separately and any difference between the market price or the current value of the underlying currency and the exercise price of the option must be considered to be of value only in providing the amount of margin required on that particular option;

d) where a client account holds both currency options issued by the Canadian Derivatives Clearing Corporation (CDCC) and currency options issued by the Options Clearing Corporation (OCC) that have the same underlying currency, the OCC options may, for the purpose of the present section, be considered to be equivalent to CDCC options when calculating the margin requirements applicable to a client account;

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

f) for the purposes of the present section, the "published spot risk margin rate" for a currency means the rate published and modified from time to time by the Investment Dealers Association of Canada.

9602 Long Currency Option Positions
(26.09.05)

The margin requirement for long currency options must be the sum of:

i) where the period to expiry is greater or equal to nine months, 50% of the option's time value, 100% of the option's time value otherwise; and

ii) the lesser of

A) the normal margin required on the underlying currency; or

B) if any, the in-the-money value associated with the option.

For the purpose of the present article, "the option's time value" means any excess of the market value of the option over the in-the-money value of the option.

9603 Short Currency Option Positions
(26.09.05)

a) The minimum margin requirement which must be maintained in respect of a currency option carried short in a client account must be:

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

ii) a percentage of the market value of the underlying currency determined by using the published spot risk margin rate for this currency; minus

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

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

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

ii) an additional amount determined by multiplying 0.75% by,

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

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

9604 Covered Currency Option Positions
(26.09.05)

a) No margin is required for a currency call option carried short in a client's account where this option is covered by the deposit of an escrow receipt. The underlying currency deposited in respect of such option shall then be deemed to not have any value for margin purposes.

Evidence of a deposit of the underlying currency shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation;

b) no margin is required for a currency put option carried short in a client’s account where such option is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the client. The acceptable government securities held on deposit:

i) must be government securities

A) which are acceptable forms of margin for the clearing corporation; and

B) which mature within one year of their deposit, and

ii) shall not be deemed to have any value for margin purposes.

The aggregate exercise value of the short currency put option must not be greater than 90% of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

c) no margin is required for a currency put option carried short in a client's account if the client has delivered to the approved participant with which such position is maintained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Bourse, and is:

i) a bank which is a Canadian chartered bank or a Quebec savings bank; or

ii) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of at least $5,000,000,

provided that the letter of guarantee certifies that the bank or trust company

iii) holds on deposit for the account of the client cash in the full amount of the aggregate exercise value of the put option and that such amount will be paid to the clearing corporation against delivery of the currency underlying the put option; or

iv) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put option against delivery of the put option underlying currency;

and provided further that the approved participant has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

9605 Currency Option Spreads and Combinations
(26.09.05)

a) Currency call spreads and put spreads

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

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

and the short option expires on or before the date of expiration of the long option, the minimum margin required for the spread position must be the lesser of:

i) the margin required on the short option; or

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

b) Currency short call – short put spreads

Where a currency call option is carried short for a client's account and the account is also short a currency put option on the same number of units of trading on the same underlying currency, the minimum margin required must be the greater of:

i) the greater of

A) the margin required on the call option; or

B) the margin required on the put option;

and

ii) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.

c) Currency long call – long put spreads

Where a currency call option is carried long for a client’s account and the account is also long a currency put option on the same number of units of trading on the same underlying currency, the minimum margin required must be the lesser of:

i) the sum of

A) the margin required for the call option; and

B) the margin required for the put option;

and

ii) the sum of

A) 100% of the market value of the call option; plus

B) 100% of the market value of the put option; minus

C) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option.

d) Currency Long call – short call – long put

Where a currency call option is carried long for a client’s account and the account is also short a currency call option and long a currency put option on the same number of units of trading on the same underlying currency, the minimum margin required must be:

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

ii) 100% of the market value of the long put option; minus

iii) 100% of the market value of the short call option; plus

iv) the greater of

A) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; or

B) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in iv) is negative, this amount may be applied against the required margin.

9606 Currency Options and Assets Denominated in the Same Currency Combinations
(26.09.05)

a) Short currency call – long asset in the same currency combination

Where a currency call option is carried short in a client's account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the lesser of:

i) the normal margin required on the asset denominated in the same currency; and

ii) any excess of the aggregate exercise value of the call option over the normal loan value of the asset denominated in the same currency.

b) Short currency put – short asset in the same currency combination

Where a currency put option is carried short in a client's account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the lesser of:

i) the normal margin required on the underlying asset denominated in the same currency; and

ii) any excess of the normal credit required on the asset denominated in the same currency over the aggregate exercise value of the put option.

c) Long currency call – short asset in the same currency combination

Where a currency call option is carried long in a client's account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the sum of:

i) 100% of the market value of the call option; and

ii) the lesser of

A) the aggregate exercise value of the call option; and

B) the normal credit required on the short asset.

d) Long currency put – long asset in the same currency combination

Where a currency put option is carried long in a client's account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum margin required must be the lesser of:

i) the normal margin required on the asset denominated in the same currency; and

ii) the excess of the combined market value of the asset denominated in the same currency and the put option over the aggregate exercise value of the put option.

Section 9651 - 9700
Capital Requirements on Currency-Related Derivatives

9651 Exchange Traded Currency Options – General
(26.09.05)

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

b) for spreads, the long position may expire before the short position;

c) for any short position carried for a client or non-client account where the account has not provided required margin, any shortfall must be charged against the approved participant's capital;

d) where an approved participant account holds both currency options issued by the Canadian Derivatives Clearing Corporation (CDCC) and currency options issued by the Options Clearing Corporation (OCC) that have the same underlying currency, the OCC options may, for the purpose of this section, be considered to be equivalent to CDCC options when calculating the capital requirements applicable to an approved participant;

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

f) for the purposes of the present section, the "published spot risk margin rate" for a currency means the rate published and modified from time to time by the Investment Dealers Association of Canada.

9652 Long Currency Option Positions
(26.09.05)

For approved participant accounts, the capital required for long currency options must be the sum of:

i) where the period to expiry is greater or equal to nine months, 50% of the option's time value, 100% of the option's time value otherwise; and

ii) the lesser of

A) the normal capital required on the underlying currency; or

B) if any, the in-the-money value associated with the option.

For the purpose of the present article, "the option's time value" means any excess of the market value of the option over the in-the-money value of the option.

9653 Short Currency Option Positions
(26.09.05)

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

i) a percentage of the market value of the underlying currency determined by using the published spot risk margin rate for this currency; minus

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

9654 Covered Currency Option Positions
(26.09.05)

a) No capital is required for a currency call option carried short in an approved participant account, where this option is covered by the deposit of an escrow receipt. The underlying currency deposited in respect of such options shall then be deemed to not have any value for capital purposes.

   Evidence of a deposit of the underlying currency shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation;

b) no capital is required for a currency put option carried short in an approved participant account which is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the approved participant. The acceptable government securities held on deposit:

   i) must be government securities

      A) which are acceptable forms of margin for the clearing corporation; and

      B) which mature within one year of their deposit; and

   ii) shall not be deemed to have any value for capital purposes.

   The aggregate exercise value of the short currency put options must not be greater than 90% of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Bourse on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

c) no capital is required for a currency put option carried short in an approved participant account if the approved participant has obtained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Bourse, and is:

i) a bank which is a Canadian chartered bank or a Quebec savings bank; or

ii) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of at least $5,000,000;

provided that the letter of guarantee certifies that the bank or trust company

iii) holds on deposit for the account of the approved participant cash in the full amount of the aggregate exercise value of the put option and that such amount will be paid to the clearing corporation against delivery of the currency underlying the put option; or

iv) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put option against delivery of the put option underlying currency;

and provided further that the approved participant has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

9655 Currency Option Spreads and Combinations
(26.09.05)

a) Currency call spreads and put spreads

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

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

the minimum capital required must be the lesser of

i) the capital required on the short option; or

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

b) Currency short call – short put spreads

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

i) the greater of

A) the capital required on the call option; or

B) the capital required on the put option;

and

ii) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.

c) Currency long call – long put spreads

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

i) the sum of

A) the capital required for the call option; and

B) the capital required for the put option;

and

ii) the sum of

A) 100% of the market value of the call option; plus

B) 100% of the market value of the put option; minus

C) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option.

d) Currency long call – short call – long put

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

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

ii) 100% of the market value of the long put option; minus

iii) 100% of the market value of the short call option; plus

iv) the greater of

A) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; or

B) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in iv) is negative, this amount may be applied against the capital required.

9656 Currency Options and Assets Denominated in the Same Currency Combinations
(26.09.05)

a) Short currency call – long asset in the same currency combination

Where a currency call option is carried short in an approved participant's account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the lesser of:

i) the normal capital required on the asset denominated in the same currency; and

ii) any excess of the aggregate exercise value of the call option over the normal loan value of the asset denominated in the same currency.

The market value of the short call option may be used to reduce the capital required on the long asset, but in no event can the capital required on this asset be less than zero.

b) Short currency put – short asset in the same currency combination

Where a currency put option is carried short in an approved participant’s account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the lesser of:

i) the normal capital required on the asset denominated in the same currency; and

ii) any excess of the normal capital required on the asset denominated in the same currency over the in-the-money value, if any, of the put option.

The market value of the short put option may be used to reduce the capital required on the short asset, but in no event can the capital required on this asset be less than zero.

c) Long currency call – short asset in the same currency combination

Where a currency call option is carried long in an approved participant’s account and the account is also short an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the sum of:

i) 100% of the market value of the call option; and

ii) the lesser of

A) any out-of-the-money value associated with the call option; or

B) the normal capital required on the asset denominated in the same currency.

Where the call option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.

d) Long currency put – long asset in the same currency combination

Where a currency put option is carried long in an approved participant’s account and the account is also long an equivalent position in an asset denominated in the same currency as the option underlying currency, the minimum capital required must be the lesser of:

i) the normal capital required on the asset denominated in the same currency; and

ii) the excess of the combined market value of the asset denominated in the same currency and the put option over the aggregate exercise value of the put option.

Where the put option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.