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CIRCULAR
September 8, 2008

MARGIN REQUIREMENTS APPLICABLE TO SWAP AGREEMENTS WITH REGULATED ENTITIES

AMENDMENTS TO ARTICLE 7226 OF RULE SEVEN

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to article 7226 of the Rules of the Bourse, which deal with swap agreements with regulated entities. These amendments are effective immediately.

Nature of the amendments

Article 7226 of the Rules of the Bourse sets the margin requirements that are applicable to interest rate swaps and total performance swaps. Up until now, this article specified what the applicable margin requirements were when the counterparty to a swap agreement is an "acceptable institution" or an "acceptable counterparty", as these terms are defined in the "General Notes and Definitions" section of the "Joint Regulatory Financial Questionnaire and Report" (JRFQR) form of Policy C-3 of the Bourse. However, contrarily to all the other various rules regarding the calculation of margin requirements, article 7226 does not specify what the applicable requirements are when the counterparty to a swap agreement is a "regulated entity", a term that is also defined in the "General Notes and Definitions" section of the JRFQR.

Amendments made to article 7226 allow to specify what the applicable margin requirements are for this type of counterparty.

For further information, please contact Jacques Tanguay, Vice-President, Regulatory Division, at 514-871-3518 or by e-mail at jtanguay@m-x.ca.

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7226 Margin on Swaps
(01.05.92, 01.04.93, 01.01.04, 13.09.05, 08.09.08)

A) Interest Rate Swaps

For the purposes of the present article, a “fixed interest rate” is an interest rate which is not reset at least every 90 days and a “floating interest rate” is an interest rate which is not a fixed interest rate. On interest rate swap agreements where payments are calculated with reference to a notional amount, the obligation to pay and the entitlement to receive must each be margined as separate components as follows:

i) where a component is a payment calculated according to a fixed interest rate, the margin required must be the margin rate specified in article 7204 - Group I for a security with the same term to maturity as the outstanding term of the swap, multiplied by 125% and in turn multiplied by the notional amount of the swap;

ii) where a component is a payment calculated according to a floating interest rate, the margin required must be the margin rate specified in article 7204 - Group I for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

The counterparty to the interest rate swap agreement must be considered to be the approved participant's client. No margin is required in respect of an interest rate swap entered into with a client which is an acceptable institution. The margin requirement for clients which are acceptable counterparties or regulated entities must be any market value deficiency calculated relating to the interest rate swap agreement. The margin requirement for clients which are other counterparties shall be any loan value deficiency calculated relating to the interest rate swap agreement, determined by using the same margin requirements for each swap component as calculated in clauses (i) and (ii) above.

B) Total Performance Swaps

On total performance swap agreements, the obligation to pay and the entitlement to receive must each be margined as separate components as follows:

i) where a component is a payment calculated based on the performance of a stipulated underlying security or basket of securities, with reference to a notional amount, the margin requirement must be the normal margin required for the underlying security or basket of securities relating to this component, based on the market value of the underlying security or basket of securities;

ii) where a component is a payment calculated according to a floating interest rate, the margin required must be the margin rate specified in article 7204 -Group I for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

The counterparty to the total performance swap agreement must be considered the approved participant’s client. No margin is required in respect of a total performance swap entered into with a client which is an acceptable institution. The margin requirement for clients which are acceptable counterparties or regulated entities must be any market value deficiency calculated relating to the total performance swap agreement. The margin requirement for clients which are other counterparties must be any loan value deficiency calculated relating to the total performance swap agreement, determined by using the same margin requirements for each swap component as calculated in clauses i) and ii) above.