Bourse de Montréal Inc.

☒	**Trading – Interest Rate Derivatives**	☒	**Back-office - Options**
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CIRCULAR
October 18, 2006

OVER-THE-COUNTER DERIVATIVE INSTRUMENTS ON SECURITIES
AMENDMENTS TO ARTICLES 9501 AND 9511

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to articles 9501 and 9511 of the Rules of the Bourse regarding the terms and procedures applicable to over-the-counter options (OTC options). The purpose of these amendments, which will become effective on October 19, 2006, is to harmonize the Rules of the Bourse applicable to OTC options with those of the Canadian Derivatives Clearing Corporation (CDCC) that regard the clearing of these options by CDCC (see the Notice to Members No. 2006-114 issued by CDCC on October 18, 2006).

More precisely, paragraphs e) of article 9501 and b) of article 9511 have been amended by deleting from these paragraphs a provision that specified that OTC options had to be in the form prescribed by the Bourse. Since these options are not traded on its market and are the result of a private agreement between the parties involved in this type of transaction, the Bourse considers that it does not have to prescribe to these parties what should be the specifications of OTC options traded by its approved participants.

Furthermore, articles 9501 and 9511 contained provisions that prohibited OTC options to be cleared through a clearing corporation. This prohibition applied not only to the settlement of transactions but also to delivery. Considering the entry of CDCC into the business of clearing OTC options, such a prohibition is no longer justified. Finally, articles 9501 and 9511 also included a provision specifying that contracts resulting from the exercise of OTC options had to be deemed exchange contracts. This provision has been abrogated, since exercising an OTC option does not convert this option into an exchange contract. Also, the delivery of the interest underlying such an option is not an exchange transaction.

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

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

Circular no : 173-2006

Amendment no : 006-2006

Section –9501 – 9600
Over-the-counter (OTC) options

9501 Margin Requirements - General Provisions
(01.01.05, 19.10.06)

a) Basis of valuation

Over-the-counter option positions in a client account must be marked to the market daily by calculating the value on a basis consistent with the valuation benchmark or mathematical model used in determining the premium at the time the contract was initially entered.

b) Margin accounts and agreements

i) All opening short transactions in over-the-counter options must be carried in a margin account;

ii) approved participants writing and issuing or guaranteeing over-the-counter options on behalf of a customer must have and maintain, with each customer, a written margin agreement defining the rights and obligations between them in regard to over-the-counter options or have and maintain supplementary over-the-counter option agreements with customers selling such options.

c) Counterparty as client

Where the approved participant is a party to an over-the-counter option, the counterparty to the option must be considered a client of the approved participant.

d) Financial Institutions

i) No margin is required for over-the-counter options entered into by a client that is an acceptable institution, as such term is defined in Policy C-3 of the Bourse ("Joint Regulatory Financial Questionnaire and Report"), as amended from time to time;

ii) where the client is an acceptable counterparty or a regulated entity, as such terms are defined in Policy C-3 of the Bourse, as amended from time to time, the required margin must be equal to the market value deficiency calculated in respect of the option position on an item-by-item basis;

for the purpose of this subparagraph, the market value deficiency means the amount by which the premium paid exceeds the market value of the option.

e) Terms of put and call options

An approved participant or *an approved person* must not make or participate in an over-the-counter trade in any put or call option, unless such option:

i) does not relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation; or

ii) does relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation, but whose terms are materially different from those of any series of options issued by the Canadian Derivatives Clearing Corporation.

For the purposes of the present section, writing over-the-counter options means the distribution of securities for which a prospectus may be required or for which specific or blanket exemptions may be necessary under the applicable securities legislation. The writer of over-the-counter options may, in effect, be an issuer distributing securities and so must, accordingly, ensure that such distribution complies with applicable securities legislation.

f) Confirmation, delivery and exercise

i) Every over-the-counter option must be confirmed in writing as between the parties, such confirmation to be mailed or delivered on the day of the transaction;

ii) payment, settlement, exercise and delivery of an over-the-counter option must be made in accordance with the terms of the over-the-counter option contract.

g) Semi-monthly returns

Approved participants are required to report as of the close of business on the fifteenth and last days of each month or, when either of these days is not a trading day, on the preceding trading day, the total puts and calls written and issued or guaranteed during the period which has ended.

9511 Capital Requirements - General Provisions
(01.01.05, 19.10.06)

a) Basis of valuation

Over-the-counter option positions in inventory must be marked to the market daily by calculating the value on a basis consistent with the valuation benchmark or mathematical model used in determining the premium at the time the contract was initially entered.

b) Terms of put and call options

An approved participant or *an approved person* must not make or participate in an over-the-counter trade in any put or call option, unless such option:

i) does not relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation; or

ii) does relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation, but whose terms are materially different from those of any series of options issued by the Canadian Derivatives Clearing Corporation.

For the purposes of the present section, writing over-the-counter options means the distribution of securities for which a prospectus may be required or for which specific or blanket exemptions relief may be necessary under the applicable securities legislation. The writer of over-the-counter options may, in effect, be an issuer distributing securities and so must, accordingly, ensure that such distribution complies with applicable securities legislation.

c) Confirmation, delivery and exercise

i) Every over-the-counter option must be confirmed in writing as between the parties, such confirmation to be mailed or delivered on the day of the transaction.

ii) Payment, settlement, exercise and delivery of an over-the-counter option must be made in accordance with the terms of the over-the-counter option contract.

d) Semi-monthly returns

Approved participants are required to report as of the close of business on the fifteenth and last days of each month or, when either of these days is not a trading day, on the preceding trading day, the total puts and calls written and issued or guaranteed during the period which has ended.