

PUT Options: Now RRSP Eligible!



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Now, you can buy put options in your RRSP

According to the Income Tax Act, many types of investments are eligible for RRSPs. Incidentally, regulations governing the eligibility of certain investments were amended. Now, you can buy put options in your RRSP account to protect your portfolio and get downside protection for your equity investments. In fact, many low-risk options strategies provide a cost-effective insurance policy for your registered accounts.

Changes proposed by the new regulations

On September 21, 2005, Ottawa filed the regulations amending the Income Tax Regulations (deferred income plans) in the Canada Gazette, Part II.

The extract addresses the amendment allowing put options and cash-settled options to be considered as qualified investment in deferred income plans. This amendment applies after February 27, 2004.

In response to changing market conditions, Canada Revenue Agency recognizes the following eligible derivatives:

- > call options on stocks, currencies and indices
- > put options on stocks, currencies and indices

Examples of option strategies allowed in an RRSP

- > Purchase of calls instead of buying stocks
- > Purchase of calls as protection for future purchases
- > Covered call writing
- > Purchase of puts instead of short selling stocks
- > Protective puts

In addition to RRSPs, the above-mentioned strategies also extend to Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and Deferred Profit Sharing Plans (DPSPs).

Answers to the most asked questions

Why do investors use options?

Strategy	Outlook
Purchase of calls	<ul style="list-style-type: none">> Take advantage of a rise in stock prices.> Determine the future purchase price of a stock.
Covered call writing	<ul style="list-style-type: none">> Increase the return of a portfolio.> Lower the average purchase price of the underlying.> Profit from a moderate increase in the price of the underlying.
Purchase of puts	<ul style="list-style-type: none">> Take advantage of a drop in stock prices.> As an insurance policy, bullish with near-term concerns.

Do all brokers permit such strategies?

Some brokerage firms may have more stringent rules. Check with your investment advisor.

What are the advantages of a put option over a sell stop order?

The put option is a guaranteed-fill equivalent with no slippage. It also serves as a complete insurance that lasts throughout the life of the option.

Is it preferable to buy at-the-money or out-of-the-money put options?

At-the-money options provide complete protection. Conversely, out-of-the-money options are less expensive though with less coverage.

Are options on exchange-traded funds eligible derivatives?

Call options on index funds have always been eligible in an RRSP. Now, put options are also eligible. Refer to the section of permitted strategies.

Upon expiry of index options, the RRSP might be credited the difference between the strike price and the index official opening level. Is this amount considered as a contribution?

No. The credit received constitutes a realized gain on the index option held if it is in-the-money upon expiry. This gain is tax-free since it is realized within the RRSP.

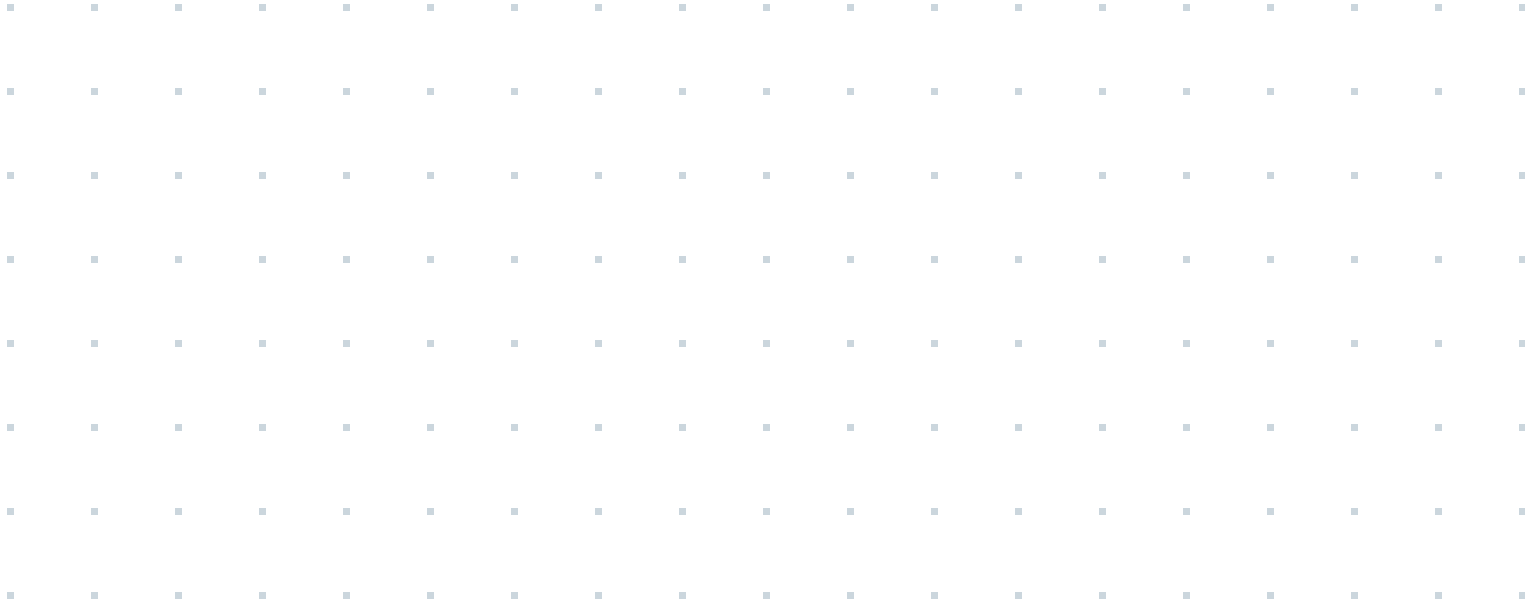


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Although options are not for everyone, many investors should consider them when determining their investment objectives. You should also make sure you understand the concepts underlying the trading of options, know the risks and advantages of the investment strategy you choose, and understand how you can manage your portfolio based on changes in the market. We strongly recommend that you consult your own experts before implementing any option strategy.

The information provided shall not be interpreted as a legal, accounting, financial or tax advice and the Exchange recommends that you consult your own experts in accordance with your needs.

For more information on RRSPs, please contact your tax advisor or contact the CRA's Registered Plans Directorate at <http://www.cra-adrc.gc.ca/tax/registered/menu-e.html> or by phone at (613) 952-0419.