

<input type="checkbox"/>	Trading – Interest Rate Derivatives	<input type="checkbox"/>	Back-office - Options
<input type="checkbox"/>	Trading – Equity and Index Derivatives	<input type="checkbox"/>	Technology
<input type="checkbox"/>	Back-office – Futures	<input checked="" type="checkbox"/>	Regulation

CIRCULAR
March 1, 2007

**EXCEPTION TO MARGIN RULES - SECURITIES CALLED FOR
CASH REDEMPTION OR FOR WHICH A
LEGAL AND BINDING CASH OFFER HAS BEEN MADE
AMENDMENTS TO PARAGRAPH 1) OF ARTICLE 7213**

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to paragraph 1) of article 7213 of the Rules of the Bourse. These amendments are effective immediately.

The proposed amendments are aimed at harmonizing the language of this regulation with the wording used by the Investment Dealers Association of Canada (IDA) eliminating the risk of a different interpretation between the IDA Regulation 100.13 and paragraph 1) of article 7213.

For further information, please contact Mr. Vito Racanelli, Financial Analyst, Regulatory Division, at 514 871-4949, extension 339, or by e-mail at vracanelli@m-x.ca.

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

Circular no.: 035-2007
Amendment no.: 003-2007

7213 Exceptions to Margin Rules

(30.11.86, 15.12.86, 01.06.88, 01.01.92, 15.01.93, 10.05.93, 01.04.93, 25.02.94, 12.03.97, 21.12.98, 29.08.01, 18.07.03, 01.01.04, 17.05.04, 01.01.05, 13.09.05, 01.03.07)

Exceptions to the margin rules are the following:

1) No margin is required in respect of:

- a) securities which have been called for cash redemption, pursuant to the terms and conditions attached thereto; or
- b) securities for which a legal and binding cash offer to purchase has been made in respect of which any conditions have been met.

Provided that such securities are not carried for an amount in excess of the price offered, and all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with the redemption call or offer have been received and verified.

In the event that a cash offer is made for a fraction of the issued and outstanding class of securities, the above reduced margin requirements shall only apply to the same fraction of the position held in a particular account for that class of securities.

- c) deposit certificates issued by a Canadian chartered bank or a trust company in Canada qualifying as an acceptable institution or an acceptable counterparty, as these terms are defined in Policy C-3 of the Bourse, and having a 24-hour call feature that would not reduce the principal amount received on redemption if applicable.

2) Margin requirements for potential liability under an underwritten rights or warrants agreement.

Where an underwriter has a commitment to purchase securities in connection with the rights or warrants offering, such commitment must be margined at the following rates:

- a) if the market value of the security which can be acquired pursuant to the exercise of the rights or warrants is below the subscription price, the underwriter's commitment must be valued at the current market price for the security and the margin rates applicable to the security must be applied;
- b) if the market value of the security is equal to or greater than the subscription price, the commitment must be margined at rates, calculated on the subscription price, equal to the following percentage of the margin rate applicable to the security under the present section:

50%, where market value is 100% to 105% of the subscription price;

30%, where market value is more than 105% but not more than 110% of the subscription price;

10% where market value is more than 110% but not more than 125% of the subscription price;

no margin is required where market value is more than 125% of the subscription price.

3) Securities eligible to a reduced margin rate

The margin required is 25% of the market value if such securities held by an approved participant are:

- i) on the list of securities eligible to a reduced margin rate as approved by a recognized self-regulatory organization and such securities continue to trade at \$2.00 or more;
- ii) securities against which options issued by the Options Clearing Corporation are traded;
- iii) convertible into securities that qualify under the subparagraph i) or subparagraph ii);
- iv) non-convertible preferred and senior shares of an issuer any of whose securities qualify under subparagraph i); or
- v) securities whose original issuance generated Tier 1 capital for a financial institution any of whose securities qualify under subparagraph i) and the financial institution is under the regulatory oversight of the Office of the Superintendent of Financial Institutions of Canada.

For the purpose of the present paragraph 3), the Bourse and the Investment Dealers Association of Canada are designated as recognized self-regulatory organizations.

- 4) Whenever the Bourse decides not to open for trading any additional options of the class covering that underlying security according to article 6605, the margin rate as permitted in paragraph 3) of this article remains in force up to the expiration of the last series of options.
- 5) Any security which is part of a control block has no loan value for margin calculation purposes, except to the extent that the control block constitutes any or all of the securities which an approved participant has an obligation or commitment to acquire, or has acquired, under a prospectus filing. In such case, the appropriate margin requirement provided for in article 7224 applies as long as the criteria in said article have been met. For the purpose of the present paragraph, a "control block" means a sufficient number of any securities of the same issuer to affect materially the control of that issuer. In the absence of evidence to the contrary, any holding by any person, company or combination of persons or companies of more than 20% of the outstanding voting securities of an issuer is deemed to affect materially the control of that issuer.
- 6) Where the account of an approved participant, a market-maker or a restricted trading permit holder contains preferred shares for which the principal and dividends are unconditionally guaranteed by the Canadian government or a provincial government, the margin rate for these securities must be 25% of their market value.
- 7) a) For the purposes of sub-paragraphs b) to f) of this paragraph, the term "floating rate preferred share" means a preferred share, for which the rate of dividend fluctuates at least quarterly, in relation with a prescribed short-term interest rate. The sub-paragraphs b) to f) of this paragraph are applicable only to an account of a market-maker, a restricted trading permit holder or inventory account of an approved participant.
 - b) Margin on floating rate preferred shares of companies with securities which are eligible to a reduced margin rate under paragraph 3 of article 7202 must be provided at the rate of 10% of the market value of such securities.
 - c) The margin rate which must be applied on floating rate preferred shares which qualify for margin under this paragraph, but which are of companies which do not have securities which are

eligible to a reduced margin rate under paragraph 3 of article 7202, is 25% of the market value of such securities.

- d) Where the issuer is in default of payment of a dividend due on floating rate preferred shares which qualify for margin purposes under this paragraph, margin must be provided at the rate of 50% of the market value of such securities.
 - e) Where the floating rate preferred shares of companies with securities which are eligible to a reduced margin rate under paragraph 3 of article 7202 are convertible and are trading over par, margin must be provided at the rate of 10% of the par value of such securities plus 25% of the excess of market value of such securities over par.
 - f) Where the floating rate preferred shares of companies which do not have securities which are eligible to a reduced margin rate under paragraph 3 of article 7202, but are convertible and are trading over par, margin must be provided at the rate of 25% of the par value of such securities plus 50% of the excess of market value of such securities over par.
- 8) a) For the purposes of sub-paragraphs b) to f) of this paragraph, the term "floating rate preferred share" means a preferred share, by the terms of which the rate of dividend fluctuates at least quarterly, in tandem with a prescribed short-term interest rate. The sub-paragraphs b) to f) of this paragraph are applicable only to an account of a market-maker, specialist, a restricted trading permit holder or inventory account of an approved participant.
- b) Margin on floating rate preferred shares of companies with securities which are eligible to a reduced margin rate under paragraph 3 of article 7202 of the Rules of the Bourse must be provided at the rate of 10% of the market value of such securities.
 - c) The margin rate which must be provided on floating rate preferred shares which qualify for margin under this paragraph but which are of companies which do not have securities which are eligible to a reduced margin rate under paragraph 3 of article 7202 of the Rules of the Bourse, is 25% of the market value of such securities.
 - d) Where the issuer is in default of payment of a dividend due on floating rate preferred shares which qualify for margin under this paragraph, margin must be provided at the rate of 50% of the market value of such securities.
 - e) Where the floating rate preferred shares of companies with securities which are eligible to a reduced margin rate under paragraph 3 of article 7202 of the Rules of the Bourse are convertible and are selling over par, margin must be provided at the rate of 10% of the par value of such securities plus 25% of the excess of market value of such securities over par.
 - f) Where the floating rate preferred shares of companies which do not have securities which are eligible to a reduced margin rate under paragraph 3 of article 7202 of the Rules of the Bourse, but are convertible and are selling over par, margin must be provided at the rate of 25% of the par value of such securities plus 50% of the excess of market value of such securities over par.
- 9) Consideration other than cash to be obtained following an offer
- a) For the purpose of computing the margin on shares which are the subject of an offer, and in respect of which all conditions have been met, the margin required may be computed on the consideration, other than cash, that would be obtained upon acceptance of the offer. The margin

rate to be used is the one prescribed in articles 7201 and following on the consideration to be obtained.

- b) Where the offer is made for less than 100% of the issued and outstanding shares, the preceding principle must be applied pro rata in the same proportion as the offer.

10) Bank warrants for governments securities

Where the account of a market maker or an approved participant contains bank warrants for government securities the margin rate must be the one required in respect of the securities to which the holder of the warrant is entitled upon exercise of the warrant provided that, in the case of a long position, margin need not exceed the market value of the warrant.

For the purpose of this paragraph, bank warrants for government securities means warrants issued by a Canadian chartered bank which are listed on any recognized stock exchange or other listing organization referred to in paragraph 1) of article 7202, and which entitle the holder to purchase securities issued by the Government of Canada or any province thereof.

11) Maximum Margin Required for Convertible Securities

The margin required for a security that is currently convertible or exchangeable into another security (the "underlying security") need not exceed the sum of:

- i) the margin required for the underlying security; and
- ii) any excess of the market value of the convertible or exchangeable security over the market value of the underlying security.