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MARGIN AND CAPITAL REQUIREMENTS FOR CONVERTIBLE SECURITIES – AMENDMENTS TO ARTICLE 7213

The Executive Committee of Bourse de Montréal Inc. (the "Bourse") has approved amendments to article 7213 of the Rules of the Bourse, which will limit the margin and capital requirements applicable to some convertible securities. These amendments become effective immediately.

The purpose of these amendments is to formally recognize that the maximum market risk of a convertible security and the resultant maximum margin or capital required on such convertible security must be closely related to the margin or capital requirement which is applicable on the underlying security. The convertible securities affected are those that may be converted or exchanged for another security without the payment of a subscription amount, such as convertible debentures, convertible preferred shares, participation units and a combination of capital shares and preferred shares ("split shares").

The addition of paragraph 15 to article 7213 of the Rules of the Bourse allows to limit the margin or the capital required for a convertible security to the sum of the margin or capital required on the underlying security and the loss that would be realized if conversion were to take place.

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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)

The following are exceptions to the margin rules as set out in this section:

1) No margin is required on securities under the following conditions:

   a) securities which have been formally called for cash redemption;

   b) securities for which a legal and binding cash offer has been made provided that:

      i) all conditions of the offer have been met;

      ii) securities are not carried for an amount in excess of the price offered.

   When the legal and binding cash offer is for less than 100% of the issued and outstanding securities and all conditions of the offer have been met, the margin required must be adjusted prorata to shares purchased by the offeror on the number of shares deposited;

   c) deposit certificates issued by a Canadian chartered bank or a trust company in Canada within the definition of an Acceptable Institution or an Acceptable Counterparty 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 a 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 under this section 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 this 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 carried in approved participant, market-maker or specialist account;

   Where the account of an approved participant, a market-maker, a specialist or a restricted trading permit holder contains securities which are eligible to a reduced margin rate as provided for in paragraph 1 of article 7202 of the Rules of the Bourse, including other listed equity issues that are convertible into such securities, the margin requirement for these securities is 25% of their market value provided that they continue to trade at $2.00 or more.

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) Underlying securities approved by Options Clearing Corporation

   Where the account of an approved participant, a market-maker, a specialist or a restricted trading permit holder contains securities which qualify for approval by the Options Clearing Corporation as underlying securities including other equity issued that are convertible into underlying securities, the margin required for these securities is 25% of their market value.

6) Nonconvertible preferred shares and senior shares of companies for which common shares are eligible to a reduced margin rate, as provided in paragraph 1 of article 7202 of the Rules of the Bourse, are entitled to a 25% margin rate provided that such common shares continue to be eligible to a reduced margin rate, failing which, the margin rate for nonconvertible preferred shares must be raised to 50% immediately (instead of after 6 months as it is the case for common shares in the event of a failure of payment of preferred shares dividends).

7) The margin rate required on securities approved by the Floor Committee is 25% of their market value, if maintained in a market-maker's or a specialist's account that has a principal or a temporary appointment on those securities. Securities trading at $2 or more during the preceding three months are eligible to this reduced margin rate. The list of eligible securities must be reviewed quarterly by the Floor Committee and only securities mentioned on such list are subject to the reduced margin rate.

   This reduced margin rate is however applicable on a maximum market value of $50,000 per security, per approved participant, if during the preceding three months the total trading volume on all exchanges recognized for margin purposes and on NASDAQ is equal to or lower than 90,000 shares, or $100,000 if during the preceding three months the total trading volume on all exchanges recognized for margin purposes and on NASDAQ exceeds 90,000 shares. The margin required on the excess of those amounts must be calculated as required by articles 7201 and following. The reduction in the amount of margin required, as opposed to the margin required by articles 7201 and following, for the aggregate of all market-maker's and specialist's accounts, must never exceed 15% of the clearing member's net allowable assets.

8) For the purpose of this section, a "control block" means a sufficient number of any securities of an issuer of securities 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. 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 of the Rules applies as long as the criteria in said article have been met.

9) Where the account of an approved participant, a market-maker, a specialist 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.

10) 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 1 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 1 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 1 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 1 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.

11) 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.

12) Bank warrants for governments securities

Where the account of a market maker, specialist or member 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 article 7202 paragraph 1) and which entitle the holder to purchase securities issued by the Government of Canada or any province thereof.

13) Margin requirements for PEACs and SPECs

a) Simple positions

The margin required on a simple long or short position in a PEAC must be determined by using the same rates as those provided for in paragraph 1 of Article 7202. However, if the underlying common stock has been approved by the Canadian Clearing Corporation of Derivative Products as being option eligible, then the margin rate must be 30% for long positions and the credit required must be 130% for short positions.

The margin required on a simple long or short position in a SPEC when held in a customer account, must be determined by applying the margin requirements provided for in articles 11202 and 11203 as if it was a stock option held in a customer account.

The margin required on a simple long or short position in a SPEC held in the account of a member, market-maker, specialist or restricted permit holder must be determined by applying the margin requirements provided for in article 11227 as if it was a stock option held in the account of one of the above mentioned person.

b) Paired positions

i) Long underlying common stock - Short SPEC

In the case of clients' accounts, the margin required on a long position in the underlying common stock which is paired with a short position in the corresponding SPEC must be the margin currently required on the common stock as provided by paragraph 1) of article 7202. However, in the case where the market value of the common stock exceeds the termination claim of the SPEC, the margin must then be determined by using the termination claim instead of the market value of the common stock.

In the case where such positions are held in accounts of members, market-makers, specialists or restricted permit holders, the margin required must be equal to 25% of the market value of the long position less the market value of the SPEC. However, margin required must not be less than zero.

ii) Long underlying common stock - Short PEAC

The margin required on a long position in the underlying common stock which is paired with a short position in the corresponding PEAC must be the greater of the margin required on the long position or the margin required on the short position.

iii) Long SPEC - Short underlying common stock

In the case of clients' accounts, the margin required on a long position in the SPEC paired with a short position in the underlying common stock must be equal to the termination claim of the SPEC minus the difference between the market values of the underlying common stock and of the SPEC.

In the case where such a position is held in the account of a member, market-maker, specialist or restricted permit holder, the margin required must be equal to the market value of the SPEC plus the lesser of the amount by which the SPEC is out of the money or 25% of the market value of the underlying common stock. If the amount of the SPEC is in the money, then the margin required must be equal to the market value of the SPEC less the amount by which it is in the money. However, the margin required must not be less than zero.

iv) Long PEAC - Short underlying common stock

The margin required on a long position in a PEAC paired with a short position in the underlying common stock must be equal to the greater of the margin required on the long or short position.

v) Long PEAC and SPEC - Short underlying common stock

The margin required on a long position in a PEAC and a SPEC paired with a short position in the underlying common stock must be equal to the difference between the market values of the long position and the short position. For the purposes of this calculation, the difference must be determined by using the bid value for each of the long and short positions.

vi) Long underlying common stock - Short PEAC and SPEC

The margin required on a long position in the underlying common stock which is paired with a short position in the PEAC and the SPEC must be equal to the greater of the margin required on the long position or on the short positions.

c) Positions held in accounts of members, market-makers, specialists and restricted permit holders

For the purposes of subparagraphs a) and b) above and when not specified, the margin rate applicable to positions held by a member, market-maker, specialist or restricted permit holder must be the rate provided for in paragraphs 4, 7 and 8 of present article.

14) Margin offsets for convertible securities

a) Where a member

i) holds a short position in the securities of an issuer; and

ii) holds a long position in securities which are currently convertible or exchangeable into the same class and at least the same number of securities referred to in clause i), the margin required must be the excess of the market value of the long position over the market value of the securities carried short. Any residual net credit money balance of the market values of the offsetting positions may not be used to reduce margin otherwise required on the long of short position remaining unhedged after applying the foregoing offset. Where the securities representing the long position held by the member are not convertible or exchangeable until the expiry of a specific period of time but the member has entered into a written, legally enforceable agreement, pursuant to which it has borrowed securities of the same class as those of the short position which do not have to be returned until the expiration of the period of time until conversion or exchange, the foregoing offset may be applied as if the securities representing the long position were currently convertible or exchangeable.

b) Where a member

i) holds a short position in the securities of an issuer; and

ii) holds a long position in warrants, rights, shares, instalment receipts or other securities pursuant to the terms of which the holder is entitled to acquire the same class and at least the same number of securities referred to in clause (i),

the margin required must be equal to the aggregate of the subscription price or other cost or charge payable in connection with the acquisition of the securities pursuant to the warrant, right, share, instalment receipt or other security plus (or minus, if a negative) the difference between the aggregate market value of the warrant, right, share, receipt or other security and the market value of the security which may be so acquired.

c) Offsets in respect of the accounts of customers with positions as described in either subparagraphs a) or b) above are permitted in the circumstances provided in such subparagraphs. The margin required, in respect of the accounts of customers with such positions, must be equal to the difference between the market value of the long position and the market value of the positions carried short, plus the aggregate of the subscription price or other cost or charge payable in connection with the acquisition of the securities pursuant to the relevant warrant, right, share, installment receipt or other security.

15) 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.