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**CIRCULAR**  
September 20, 2010

**APPLICATION OF ARTICLE 14205 OF THE  
RULES OF BOURSE DE MONTRÉAL INC. REGARDING  
MARGINS ON DAY TRADING IN DERIVATIVE INSTRUMENTS**

The purpose of this circular is to clarify how Bourse de Montréal Inc. (the Bourse) considers that article 14205 of its Rules (Margins on Day Trading) should be interpreted and applied.

Article 14205 of the Rules reads as follows:

**14205 Margins on Day Trading**  
(10.03.81, 24.04.84, 13.09.05, 04.03.08)

*An approved participant may use his discretion in permitting a client having an established account to make day trades in derivative instruments without margining each transaction, provided that any such transactions which are not closed out on the same day shall be subject to the full amount of margin required.*

First, it is important to mention that the Bourse’s regulatory jurisdiction is limited to derivative instruments that are listed and traded on its market. It should therefore be kept in mind, when reading, interpreting and applying the Rules, Policies and Trading Procedures of the Bourse, that the regulatory provisions contained therein are applicable only to derivative instruments listed and traded on the Bourse and not to any other derivative instrument that is either traded on another exchange or on the OTC market. In the case of derivative instruments that are listed and traded on another exchange, the applicable regulatory provisions are those of this other exchange or, as the case may be, of the self-regulatory organization having regulatory jurisdiction over a firm for what regards the application of such rules. In the case of OTC instruments, the applicable regulatory provisions will be those of the relevant regulator or, as the case may be, of the self-regulatory organization responsible for regulating and/or monitoring such instruments.

Consequently, article 14205 of the Rules must be interpreted as applying solely to derivative instruments that are listed and traded on the Bourse. This interpretation is supported by the definitions of the terms “margin” and “listed product” that can be found in article 1102 of the Rules (Definitions). The term “margin”, for the purpose of the Rules of the Bourse, is defined as being the margin that is required on listed products and the term “listed product” is defined as being any derivative instrument listed for trading on the Bourse.

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Article 14205 was originally implemented for the benefit of professional floor traders. When the Bourse converted to an electronic market, it created a Liquidity Provider Rebate Program to which former floor traders as well as other professionals such as proprietary trading firms could adhere and article 14205 was kept in place so that participants to this program could benefit from the margin relief thus giving them some additional incentive to actively provide liquidity to the Bourse's market. Article 14205 was therefore primarily intended for this category of trading participants.

In conclusion, the application of the margin relief provided for in article 14205 must be limited to professional individuals or firms (deemed to be clients of approved participants) that have not only a well established account but who are also registered in the Liquidity Provider Rebate Program of the Bourse and such relief is applicable only to derivative instruments that are listed and traded on the Bourse.

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

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