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CIRCULAR
December 9, 2005

**MARGIN AND CONCENTRATION PROVISIONS ON FUTURES CONTRACTS AND
OPTIONS ON FUTURES CONTRACTS**

**AMENDMENTS TO THE NOTES AND INSTRUCTIONS OF SCHEDULE 12 OF THE
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT –
POLICY C-3 OF THE BOURSE**

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to the Notes and Instructions of Schedule 12 of the Joint Regulatory Financial Questionnaire and Report (Policy C-3 of the Bourse) which deals with margin and concentration provisions on futures contracts and options on futures contracts. These amendments become effective on December 30, 2005.

The main purpose of these amendments is to clarify and simplify the calculations for margin and concentration on futures contracts and options on futures contracts that must be reported on Schedule 12 of the Joint Regulatory Financial Questionnaire and Report. More specifically, they clarify which positions in options on futures contracts must be included or excluded in the calculation of the general margin provision and of margins concentration and they eliminate the requirement to report only one half of the positions in short options on futures contracts when such short options are out-of-the-money by more than two but less than three maintenance margins.

For further information, please contact 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.: 182-2005
Amendment no.: 011-2005

SCHEDULE 12
NOTES AND INSTRUCTIONS

Line 1 - General margin provision. The margin requirement for futures contracts and options on futures contracts shall be 15% of the maintenance margin requirements, as required by the Commodity Futures Exchange on which such futures contracts were entered into, for the greater of the total long or total short futures contracts per commodity or financial futures carried for all client and Member accounts. For the purpose of this general margin provision, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

The following positions are excluded from this calculation:

- (a) positions in Acceptable Institution, Acceptable Counterparty and Regulated Entity accounts;
- (b) hedge positions, provided that the underlying interest is held in the client's account at the Member or that the Member has a document giving the Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions for the purpose of this calculation;
- (c) client and Member spreads in the same futures contract entered into on the same futures exchange. All other spread positions are treated as speculative positions for the purpose of this calculation;
- (d) The following options on futures contracts positions:
 - (i) short options on futures contracts which are out-of-the-money by more than two maintenance margin requirements; and
 - (ii) spreads in the same options on futures contracts.

Line 2 - Concentration in individual accounts. The Member must provide for the amount by which;

- (a) the aggregate of the maintenance margin requirements of the commodity or financial futures or underlying interest of option on futures contracts held both long and short for any client (including without limitation groups of clients or related clients) or in inventory, except for positions mentioned in Note 1 below, less any excess margin provided

exceeds

- (b) 15% of the Member's net allowable assets.

The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Member's capital shall be charged the lesser of:

- (a) the excess calculated when the concentration first occurred; and
- (b) the excess, if any, that exists on the close of the third trading day.

For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

Line 3 - Concentration in individual open futures contracts and short options on futures contract positions. The Member must provide for the amount by which;

- (a) the aggregate of two maintenance margin requirements on the greater of the long or the short commodity or financial futures contracts position held for clients and in inventory, except for positions mentioned in Note 1 below,

exceeds

- (b) 40% of the Member's net allowable assets.

There may be deducted from this difference, on a per client basis, the excess margin available in all accounts of the client up to two maintenance margin requirements of the client's positions in the futures contracts.

SCHEDULE 12
NOTES AND INSTRUCTIONS (Cont'd)

The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included in both the long and short side using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Member's capital shall be charged the lesser of:

- (a) the excess calculated when the concentration first occurred; and
- (b) the excess, if any, that exists on the close of the third trading day.

For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

Line 4 - Where assets, including cash, open trade equity and securities, owing to a Member from a Commodity Futures Correspondent Broker exceed 50% of the Member's net allowable assets, any excess over this amount shall be provided as a charge in computing the Member's margin required.

Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published audited financial statements, exceeds \$50,000,000, no margin is required under this rule.

Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published financial statements, is less than \$50,000,000, the Member may use a confirmed unconditional and irrevocable letter of credit issued by a US bank qualifying as an Acceptable Institution on behalf of the Commodity Futures Correspondent Broker to offset any margin requirement calculated above. The amount of the offset is limited to the amount of the letter of credit.

No exemption from this requirement is permitted for Members who operate their commodity futures contracts and commodity option on futures contracts business on a fully disclosed basis with a correspondent broker.

Note 1: For the purpose of the calculation of the concentration margin on individual client accounts (Line 2) and for open futures contracts and short options on futures contracts positions (Line 3), the following positions are excluded:

- 1.1 positions held in Acceptable Institution, Acceptable Counterparty and Regulated Entity accounts;
- 1.2 hedge positions provided that the underlying interest is held in the client's account at the Member or that the Member has a document giving the Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions and are thereby not excluded;
- 1.3 the following short Options on Futures Contracts Positions:
 - (i) either the short call or the short put where a client or Member account is short a call and short a put on the same futures contract with the same exercise price and same expiration month;
 - (ii) a futures contract paired with an in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
 - (iii) a short option paired with a long in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
 - (iv) a short option paired with a futures contract provided that this pairing is acceptable for margin purposes by a recognized exchange;
 - (v) an out-of-the-money short call option paired with an out-of-the-money long call option, where the strike price of the short call exceeds the strike price of the long call, provided that this pairing is acceptable for margin purposes by a recognized exchange;
 - (vi) an out-of-the-money short put option paired with an out-of-the-money long put option provided that this pairing is acceptable for margin purposes by a recognized exchange; and
 - (vii) short option, which is out-of-the-money by more than two maintenance margin requirements.