Bourse de Montréal Inc.

CIRCULAR
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MARGIN AND CAPITAL REQUIREMENTS FOR CAPITAL SHARE AND CONVERTIBLE AND EXERCISABLE SECURITY OFFSETS

AMENDMENTS TO ARTICLES 7202A AND 7213

ADDITION OF ARTICLES 7227 AND 7228

The Executive Committee of Bourse de Montréal Inc. (the "Bourse") approved amendments to articles 7202A and 7213 and the addition of articles 7227 and 7228 to Rule Seven of the Bourse, which deal with margin and capital requirements for capital shares and convertible and exercisable security offsets. These amendments will become effective on January 1, 2004.

The main objective of the amendments is to expand the number of reduced margin offset strategies available to approved participants and their clients for offsets involving capital shares and convertible and exercisable securities. Generally, the current offset rules for these types of securities only permitted reduced margin offset strategies involving a long position in the capital shares or convertible or exercisable securities and a short position in the underlying securities. The new rules will recognize as effective price hedges the reverse offset strategies – an offset involving a long position in the underlying securities and a short position in the capital shares or convertible or exercisable securities.

For further information, please contact Eric Bernard, Financial Analyst, at (514) 871-4949, extension 373, or by e-mail at ebernard@m-x.ca.

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

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7202A Margin Offsets on Capital Shares
(19.03.93, 01.04.93, 01.01.04)

1) For the purposes of the present article:

a) "capital share" means a share issued by a split share company which represents all or a substantial portion of the capital appreciation portion of the underlying common share;

b) “capital share conversion loss” means any excess of the market value of the capital shares over the retraction value of the capital shares;

c) “combined conversion loss” means any excess of the combined market value of the capital and preferred shares over the combined retraction value of the capital and preferred shares;

d) "preferred share" means a share issued by a split share company which represents all or a substantial portion of the dividend portion of the underlying common share, and includes equity dividend shares of split share companies;

e) “retraction value” means:

A) for capital shares:

i) where the capital shares can be tendered to the split share company for retraction directly for the underlying common shares, at the option of the holder, the excess of the market value of the underlying common shares received over the retraction cash payment to be made when retraction of the capital shares takes place;

ii) where the capital shares cannot be tendered to the split share company for retraction directly for the underlying common shares, at the option of the holder, the retraction cash payment to be received when retraction of the capital shares takes place;

B) for capital shares and preferred shares in combination:

i) where the capital shares and preferred shares can be tendered to the split share company for retraction directly for the underlying common shares, at the option of the holder, the market value of the underlying common shares received;

ii) where the capital shares and preferred shares cannot be tendered to the split share company for retraction directly for the underlying common shares, at the option of the holder, the retraction cash payment to be received when retraction of the capital and preferred shares takes place;

f) "split share company" means a corporation formed for the sole purpose of acquiring underlying common shares and issuing its own capital shares based on all or a substantial portion of the capital appreciation portion and its own preferred shares based on all or a substantial portion of the dividend income portion of such underlying common shares.

2) Long capital shares and short common shares

Where capital shares are carried long in an account and the account is also short an equivalent number of common shares, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) the lesser of:

a) the sum of:

I) the capital share conversion loss, if any; and

II) the normal capital required (margin required in the case of client account positions) on the equivalent number of preferred shares;

or

b) the normal capital required (margin required in the case of client account positions) on the underlying common shares;

and

ii) where the capital shares cannot be tendered to the split share company for retraction directly for the underlying common shares at the option of the holder, 20% of the normal capital required (margin required in the case of client account positions) on the underlying common shares.

3) Long capital shares, long preferred shares and short common shares

Where both capital shares and an equivalent number of preferred shares are carried long in an account and the account is also short an equivalent number of common shares, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) the lesser of:

a) combined conversion loss, if any; or

b) the normal capital required (margin required in the case of client account positions) on the underlying common shares;

and

ii) where the capital shares and preferred shares cannot be tendered to the split share company for retraction directly for the underlying common share, at the option of the holder, 20% of the normal capital required (margin required in the case of client account positions) on the underlying common shares.

4) Long capital shares and short call options

Where capital shares are carried long in an account and the account is also short an equivalent number of call options expiring on or before the redemption date of the capital shares, , the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) the lesser of:

a) the normal capital required (margin required in the case of client account positions) on the capital shares less, if any, the market value of the short call options, however, the capital required cannot be less than zero; and

b) any excess of the market value of the underlying common shares over the aggregate exercise value of the call options;

and

ii) the capital share conversion loss, if any; and

iii) where the capital shares cannot be tendered to the split share company for retraction directly for the underlying common shares at the option of the holder, 20% of the normal capital required (margin required in the case of client account positions) on the underlying common shares.

5) Long common shares and short capital shares

Where common shares are carried long in an account and the account is also short an equivalent number of capital shares, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) the lesser of:

a) the sum of:

I) the capital share conversion loss, if any; and

II) the normal capital required (margin required in the case of client account positions) on the equivalent number of preferred shares;

and

b) the normal capital required (margin required in the case of client account position) on the underlying common shares;

and

ii) 40% of the normal capital required (margin required in the case of client account positions) on the underlying common shares.

6) Long common shares, short capital shares and short preferred shares

Where common shares are carried long in an account and the account is also short both an equivalent number of capital shares and an equivalent number of preferred shares, the capital and margin requirements, for approved participants and client account positions respectively, must be equal to the sum of:

i) the lesser of:

a) combined conversion loss, if any; or

b) the normal capital required (margin required in the case of client account positions) on the underlying common shares;

and

ii) where the capital and preferred shares cannot be tendered to the split share company for retraction directly for the underlying common shares at the option of the holder, 40% of the normal capital required (margin required in the case of customer account positions) on the underlying common shares.

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)

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 Artic le 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) 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.

7227 Margin Offsets on Convertible Securities
(01.01.04)

1) For the purpose of the present article:

   a) "conversion loss" means any excess of the market value of the convertible securities over the market value of the equivalent number of underlying securities;

   b) "convertible security" means a convertible security, exchangeable security or any other security that entitles the holder to acquire another security, the underlying security, upon exercising a conversion or exchange feature;

   c) "currently convertible" means a security that is either:

      A) convertible into another security, the underlying security, either currently or within 20 business days, provided all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with the merger, acquisition, spin-off or other security related reorganization have been received; or

      B) convertible into another security, the underlying security, after the expiry of a specific period, and the approved participant or client has entered into a term securities borrowing agreement. The agreement must be a written, legally enforceable agreement enabling the approved participant or client to borrow the underlying securities for the entire period from the current date until the expiry of the specific period until conversion;

   d) "Newco securities" means securities of a successor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction;

   e) "Oldco securities" means securities of a predecessor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction;

   f) "underlying security" means the security, which is received upon exercising the conversion or exchange feature of a convertible security.

2) Long convertible securities considered "currently convertible" and short underlying securities

   Where convertible securities are held long in an account and such securities are currently convertible and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

   i) the conversion loss, if any; and

   ii) where the convertible security cannot be converted directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of client account positions) on the underlying securities.

3) Long convertible securities not considered "currently convertible" and short underlying securities

   Where convertible securities are held in an account and such securities are not currently convertible and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) the conversion loss, if any; and

ii) 20% of the normal capital required (margin required in the case of client account positions) on the underlying securities, to cover the sell-out risk associated with holding convertible securities not considered to be "currently convertible"; and

iii) where the convertible security cannot be converted directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of client account positions) on the underlying securities.

4) Short convertible securities and long underlying securities

Where convertible securities are held short in an account and the account is also long an equivalent number of underlying securities, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) the conversion loss, if any; and

ii) 40% of the normal capital required (margin required in the case of client account positions) on the underlying securities.

5) Long "Oldco securities" and short "Newco securities" relating to an amalgamation, acquisition, spin-off or any other securities related reorganization transaction

i) Where, pursuant to a securities related reorganization involving predecessor and successor issuers, Oldco securities are held long in an account, the account is also short an equivalent number of Newco securities, and the conditions set out in clause ii) are met, the capital and margin requirements for approved participant and client account positions, respectively, must be the excess of the combined market value of the Oldco securities over the combined market value of the Newco securities, if any.

ii) The offset described in subparagraph i) above may be taken where all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with the merger, acquisition, spin-off or other security related reorganization have been received and where the Oldco securities will be cancelled and replaced by an equivalent number of Newco securities within 20 business days.

7228 Margin Offsets on Exercisable Securities
(01.01.04)

1) For the purpose of the present article:

a) "exercise loss" means any excess of combined sum of the market value of the exercisable securities and the exercise or subscription payment, over the market value of the equivalent number of underlying securities;

b) "exercisable security" means a warrant, right, instalment receipt or any other security that entitles the holder to acquire another security, the underlying security, upon making an exercise or subscription payment;

c) "currently exercisable" means a security that is either:

A) exercisable into another security, the underlying security, either currently or within 20 business days, provided all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with exercising have been received; or

B) exercisable into another security, the underlying security, on a future date, and the approved participant or client has entered into a term securities borrowing agreement. The agreement must be a written, legally enforceable agreement enabling the approved participant or client to borrow the underlying securities for the entire period from the current date until the exercise or subscription date;

d) "underlying security" means the security, which is received upon invoking the exercise feature of an exercisable security.

2) Long exercisable securities considered "currently exercisable" and short underlying securities

Where exercisable securities are held long in an account and such securities are currently exercisable and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) in the case of client account positions, the amount of the exercise or subscription payment; and

ii) the exercise loss, if any; and

iii) where the exercisable security cannot be exercised directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of client account positions) on the underlying securities.

3) Long exercisable securities not considered "currently exercisable" and short underlying securities

Where exercisable securities are held long in an account and such securities are not currently exercisable and the account is also short an equivalent number of underlying securities, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) in the case of client account positions, the amount of the exercise or subscription payment; and

ii) the exercise loss, if any; and

iii) 20% of the normal capital required (margin required in the case of client account positions) on the underlying securities, to cover the sell-out risk associated with holding exercisable securities not considered to be "currently exercisable"; and

iv) where the exercisable security cannot be converted directly into the underlying security, at the option of the holder, 20% of the normal capital required (margin required in the case of client account positions) on the underlying securities.

4) Short exercisable securities and long underlying securities

Where exercisable securities are held short in an account and the account is also long an equivalent number of underlying securities, the capital and margin requirements, for approved participant and client account positions respectively, must be equal to the sum of:

i) in the case of client account positions, the amount of the exercise or subscription payment; and

ii) the exercise loss, if any; and

iii) 40% of the normal capital required (margin required in the case of client account positions) on the underlying securities.