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**CIRCULAR**  
June 22, 2005

## **REQUEST FOR COMMENTS**

### **MARGIN AND CAPITAL REQUIREMENTS FOR OVER-THE-COUNTER OPTIONS**

#### **ADDITION OF A DEFINITION OF “OVER-THE-COUNTER” OPTIONS TO ARTICLE 1102**

#### **AMENDEMENTS TO SECTION 9501 – 9600 OF RULE NINE**

#### **ADDITION OF SECTION 6691-6700 TO RULE SIX**

### **Summary**

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to article 1102 and to section 9501-9600 of the Rules, as well as the addition of section 6691-6700 to Rule Six of the Bourse, which deal with margin and capital requirements applicable to over-the-counter options held in approved participant and client accounts. They also have for purpose to transfer from current section 9501-9600 of Rule Nine to Rule Six the provisions that do not deal with margin and capital requirements.

### **Process for Changes to the Rules**

Bourse de Montréal Inc. is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

Circular no.: 095-2005

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The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules and Policies of the Bourse governing approved participants, among which, the Rules and Policies relating to margin and capital requirements. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules and Policies with recommendation from the Special Committee. These changes are submitted to the Autorité for approval.

Comments in regards to article 1102, to section 9501-9600 and to section 6691-6700 of the Rules of the Bourse must be submitted within 30 days following the date of publication of the present notice in the bulletin of the Autorité. Please submit your comments to:

*Ms. Joëlle Saint-Arnault  
Vice-President, Legal Affairs and Secretary  
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Montréal, Quebec H4Z 1A9  
E-mail: [legal@m-x.ca](mailto:legal@m-x.ca)*

A copy of these comments shall also be forwarded to the Autorité to:

*Ms. Anne-Marie Beaudoin  
Director – Secretariat of L'Autorité  
Autorité des marchés financiers  
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## **Appendices**

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined, if applicable, with the other Canadian self-regulatory organizations following approval by the "Autorité des marchés financiers".



### MARGIN AND CAPITAL REQUIREMENTS FOR OVER-THE- COUNTER OPTIONS

- ADDITION OF A DEFINITION OF “OVER-THE-COUNTER” OPTIONS TO ARTICLE 1102
- AMENDEMENTS TO SECTION 9501 – 9600 OF RULE NINE
- ADDITION OF SECTION 6691-6700 TO RULE SIX

## I SUMMARY

### A) Current Rules

When new Rule Nine of Bourse de Montréal Inc. (the Bourse), entitled “Margin and Capital requirements for options, futures contracts and other derivative instruments” implemented on January 1, 2005 was drafted, former Section 11251–11265 of Rule Eleven of the Bourse regarding over-the-counter options was transferred to Rule Nine to become Section 9501–9600. At the time of this transfer to Rule Nine, the only amendments made to the Section were housekeeping amendments.

Following a subsequent revision of this Section, the Bourse came to the conclusion that the margin and capital requirements applicable to over-the-counter options had to be updated in order to have them better harmonized, subject to certain exceptions, with the requirements applicable to exchange-listed options since over-

the-counter options generally have many characteristics that are similar to those of exchange-listed options.

### B) The Issue

Section 9501- 9600 of Rule Nine of the Bourse regarding over-the-counter options currently presents the following weaknesses:

- the margin and capital requirements applicable to these options are not uniform with the requirements that are applicable to exchange-listed options and such lack of uniformity is not justified; and
- section 9501–9600 includes requirements which, in the opinion of the Bourse, are more relevant to Rule Six (Trading Rules) than to Rule Nine. This is the case for the provisions contained in paragraphs e), f) and h) of article 9501 which relate to the terms of over-the-counter options, to settlement, exercise and delivery of these options and to the bi-monthly reports that must be filed with the Bourse. Because these provisions are currently in Rule Nine, many approved participants ignore their existence. Since they are under the audit jurisdiction of the IDA for margin and capital requirements, they are more inclined to refer to the Regulations of the IDA rather than the Rules of the Bourse regarding these requirements. The IDA Regulations regarding margin and capital requirements are identical to the Rules of the Bourse except that they do not contain provisions similar to those of the above-mentioned paragraphs of article 9501.
- It is normal that the Rules of the Bourse contain such provisions because their purpose is to ensure that approved participants do not trade over-the-counter options that are identical to those issued by the Canadian Derivatives Clearing Corporation (CDCC) and listed on the Bourse and, if they trade over-the-counter options, that they comply with certain requirements.

**C) Objective**

The objective of the proposed amendments is to harmonize the margin and capital requirements applicable to over-the-counter options with those that are applicable to exchange-listed options. Their purpose is also to transfer some provisions of the current articles 9501-9600 of Rule Nine to Rule Six of the Bourse since these provisions do not relate to margin and capital requirements but rather to the trading, settlement and exercise of over-the-counter options and to the delivery of the underlying interests of such options. The transferred provisions also relate to the obligation for approved participants to make periodic reports to the Bourse on the transactions made and positions maintained in these options.

**D) Effects of the proposed Rules**

The proposed amendments should not have a significant effect on the market structure, on the competition between approved participants and other brokers and on compliance costs. The proposed amendments will allow margin and capital requirements applicable to over-the-counter options to better reflect the market risk and to facilitate the interpretation and the application of these requirements. The proposed amendments should not have any significant impact on costs.

**II DETAILED ANALYSIS**

**A) Current Rules and proposed amendments**

In order to avoid any interpretation difficulty regarding over-the-counter options, it was considered useful to include in the definitions of article 1102 of the Rules a definition of the meaning of the term “Over-the-Counter Option”. Any option that is not issued and guaranteed by a recognized clearing corporation such as CDCC or OCC is considered to be an over-the-counter option.

Paragraphs a) of article 9501 and of article 9511 were drafted in the same way except that in article 9501 this paragraph refers to clients’ accounts while in the case of article 9511 refers to the inventory positions of an approved participant. These two paragraphs were therefore uselessly repetitive and it was deemed appropriate to repeal paragraph a) of article 9511 and to amend the corresponding paragraph of article 9501 by adding thereto a clarification such that it be understood that the provisions of this paragraph apply not only to clients’ accounts but also to approved participants’ accounts.

Paragraph d) of article 9501 specifies what are the margin requirements applicable to the accounts of “acceptable institutions” and of “acceptable counterparties” and refers to the “Joint Regulatory Financial Questionnaire and Report” (Policy C-3 of the Bourse) for the definitions of these terms. This paragraph is being repealed because it is considered useless and redundant. Schedule 4 of Policy C-3 clearly defines how margin for these types of accounts must be calculated.

Paragraphs e), f) and h) of article 9501 have no relation with margin and capital requirements. Paragraph e) prohibits transactions on options having the same underlying interest as options issued by CDCC unless such options include conditions that are significantly different from those included in options issued by CDCC. Paragraph f) provides that the settlement, the exercise and the delivery of over-the-counter options must not be done through a clearing corporation. Finally, paragraph h) requires from approved participants that they file with the Bourse bi-monthly reports regarding transactions in over-the-counter options.

As shown, these provisions do not really belong in a Rule concerning margin and capital requirements because they relate much more to the trading of such options and to the obligations or prohibitions resulting from such trading. In addition, as a result of their inclusion in a Rule

relating to margin and capital requirements, many approved participants did not know about the existence of these provisions because, being under the audit jurisdiction of the IDA for margin and capital matters, they were more inclined to refer to the IDA Regulations rather than the Rules of the Bourse for such matters. The IDA Regulations do not contain any provisions similar to those of the above-mentioned paragraphs.

A new section has therefore been created in Rule Six, Section 6691–6700 entitled “Over-the-Counter Options”, and paragraphs e) and h) of article 9501 have been transferred in this new section to respectively become articles 6691 (Terms of Over-the-Counter-Options) and 6692 (Bi-Monthly Reports for Over-the-Counter Options). In addition to making this transfer, some drafting changes have been done to make the wording clearer.

More specifically, paragraph e) of article 9501 provides that over-the-counter options had to be in the form prescribed by the Bourse. The Bourse never prescribed any particular form for over-the-counter options. The characteristics and terms applicable to over-the-counter options are generally the result of an agreement between two counterparties. The Bourse considers that it does not have to intervene in this type of transaction and does not have to “prescribe” the form that must take such options. As long as these options are not exact replicas of options issued by CDCC, approved participants are free to determine what form will take the over-the-counter options that they trade. The relevant provision has therefore been withdrawn.

For what regards paragraph f) of article 9501, it has been determined that it should not be transferred to Rule Six but rather be entirely abrogated. First, this paragraph provides that over-the-counter options must not be settled through a clearing corporation. Given the growing interest of clearing corporations to get involved into the clearing and settlement of over-the-counter products, it is believed that maintaining such a provision could eventually

become an obstacle for clearing corporations to get involved in the clearing and settlement of such products. Furthermore, the involvement of clearing corporations in over-the-counter products would be a significant improvement over the actual situation since such involvement would contribute to the reduction or even elimination of the credit risk related to the clearing and settlement of over-the-counter products.

Also, the second part of paragraph f) provides that settlement and delivery of exercised options must not be done through a clearing corporation. This provision makes little sense, since most underlying assets of over-the-counter options are exchange-listed equities. When these options are settled and delivery is made, such delivery will normally be made through the Canadian Depository for Securities (CDS) book-based system. It therefore appears that in most situations involving settlement and delivery of an over-the-counter option, there will be a clearing corporation involved.

Finally, paragraph f) of article 9501 provides that the contract resulting from the exercise of an over-the-counter option must be deemed to be an exchange contract. Over-the-counter options are not exchange-traded and there is no reason why the “contract” resulting from the exercise of such an option should be deemed to be an exchange contract.

It is further proposed to withdraw articles 9501 (Margin Requirements – Simple Long Positions) and 9502 (Margin Requirements – Simple Short Positions) and to replace them by two new articles as follows:

- a new article 9502 entitled “Client Accounts – Positions and Pairings Involving Over-the-Counter Options”; and
- a new article 9503 entitled “Approved Participant Accounts – Positions and Pairings Involving Over-the-Counter Options”.

The purpose of these two new articles is to provide unequivocally that, except for the limitations set forth in article 9504, the margin and capital requirements applicable to over-the-counter options held in client accounts (article 9502) or in approved participant accounts (article 9503) are the same as those applicable to exchange-listed options. Each of the two new articles therefore refers to the relevant sections of Rule Nine that are applicable in each case.

Not only do these articles permit to clarify how margin and capital requirements applicable to over-the-counter options must be determined, but in addition, they significantly increase the various offsets possible between option positions. In effect, until now, the only offsets permitted by the various sections to which articles 9502 and 9503 refer were those involving exchange-listed options. With the introduction of the new wording of articles 9502 and 9503, all the offsets provided by these sections will be permitted not only for exchange-listed options but for all pairings for which a part of or all positions involved include over-the-counter options.

The new proposed wording for these articles should therefore allow approved participants a greater flexibility in the determination of the margin and capital requirements applicable to over-the-counter options while, at the same time, allowing them to peruse requirements that better reflect the real risk related to positions involving this type of options.

For what concerns article 9504, except for some modifications of form, including the one made to the title so that it better reflects the content of the article, it has not been subjected to any significant changes. The Bourse considers that the limitations that are applicable when pairings of positions involve European-style over-the-counter options are still relevant.

Article 9505 has been amended by withdrawing from paragraph b) the reference to a depository approved by the clearing corporation. The

clearing corporation not being involved at all in the settlement, the exercise and the delivery of over-the-counter options, the Bourse considers that it is not necessary for approved participants to use only depositories approved by the clearing corporation. The determination of the acceptability of a depository should therefore be left to the discretion of the approved participant. It is also to be noted that Policy C-3 of the Bourse defines, in its General Instructions and Definitions, what is considered an “acceptable securities location”. Approved participants can therefore base themselves on this definition, which is quite exhaustive, to determine if a depository can be considered acceptable.

Finally, articles 9511 to 9514 are entirely repealed and article 9515 is renumbered to become article 9506. The various amendments explained above are such that these articles are no longer necessary. Therefore:

- the provisions of paragraph a) of article 9511 can now be found in amended paragraph a) of article 9501;
- paragraphs b), c) and d) of article 9511 were a repeat of paragraphs e), f) and h) of article 9501, which are now in Rule Six, as previously explained;
- paragraph d) of article 9511 repeated the provisions of article 9501 regarding confirmation, delivery and exercise of over-the-counter options. Since these provisions have been retained in article 9501, it appears useless to repeat them again in article 9511;
- in light of the new wording of article 9503 regarding capital requirements applicable to positions in and pairings of over-the-counter options, the provisions of articles 9512 and 9513 are now useless and these two articles are therefore repealed; and
- since article 9504 has been modified to include not only positions held in client accounts but also those held in the accounts of approved participants,

article 9514 is no longer necessary and is therefore repealed.

- Rule Nine of Bourse de Montréal Inc.;
- Rule Six of Bourse de Montréal Inc.

### **B) Public Interest**

The purpose of the proposed amendments is to clarify the margin and capital requirements that are applicable to over-the-counter options and to harmonize them with those applicable to exchange listed options. The purpose of the proposed amendments is also to transfer to Rule Six of the Bourse some provisions of Rule Nine that are not related to margin and capital requirements. Consequently, the proposed amendments are considered to be of public interest.

## **III COMMENTS**

### **A) Efficiency**

The proposed amendments will recognize, for regulatory purposes, the reduction of the market risk that may allow pairings of positions involving over-the-counter options, by providing in clearer terms that over-the-counter options may, subject to certain limitations, be treated in the same manner as exchange-listed options.

### **B) Process**

The first step of the approval process for the regulatory amendments proposed in the present document consists in having the proposed amendments approved by the Special Committee – Regulatory Division of the Bourse. The proposed amendments are then submitted to the approval of the Rules and Policies Committee of the Bourse. Once the approval of the Rules and Policies Committee is obtained, the project is published by the Bourse for a 30-day comment period and submitted to the Autorité des marchés financiers for approval and to the Ontario Securities Commission for information.

## **IV SOURCES**

- Rule One of Bourse de Montréal Inc.

**RULE ONE  
REGULATIONS OF THE BOURSE**

**1102 Definitions**

(07.09.99, 31.01.01, 08.07.02, 02.09.03, 00.00.05)

The following is an alphabetical index of each term defined in English in this article with the corresponding French term in brackets.

(...)

**Over-the-counter option (option hors bourse)**

(...)

Throughout the Regulations of the Bourse, unless the subject matter or context otherwise requires:

**Over-the-counter option means an option that is not issued and guaranteed by a recognized clearing corporation.**

(...)

**Section –9501 – 9600**  
**Over-the-Counter (OTC) Options**

**9501 Margin and Capital Requirements - General Provisions**  
(01.01.05, 00.00.05)

**a) Basis of valuation**

Over-the-counter option positions in a client account or in an approved participant account must be marked to the market daily by calculating the value on a basis consistent with the valuation benchmark or mathematical model used in determining the premium at the time the contract was initially entered.

**b) Margin accounts and agreements**

- i) All opening short transactions in over-the-counter options must be carried in a margin account;
- ii) approved participants writing and issuing or guaranteeing over-the-counter options on behalf of a customer must have and maintain, with each customer, a written margin agreement defining the rights and obligations between them in regard to over-the-counter options or have and maintain supplementary over-the-counter option agreements with customers selling such options.

**c) Counterparty as client**

Where the approved participant is a party to an over-the-counter option, the counterparty to the option must be considered a client of the approved participant.

~~**d) Financial Institutions**~~

- ~~i) No margin is required for over the counter options entered into by a client that is an acceptable institution, as such term is defined in Policy C 3 of the Bourse ("Joint Regulatory Financial Questionnaire and Report"), as amended from time to time;~~
  - ~~ii) where the client is an acceptable counterparty or a regulated entity, as such terms are defined in Policy C 3 of the Bourse, as amended from time to time, the required margin must be equal to the market value deficiency calculated in respect of the option position on an item by item basis;~~
- ~~— for the purpose of this subparagraph, the market value deficiency means the amount by which the premium paid exceeds the market value of the option.~~

**(Point e) of article 9501 becomes new article 6691)**

**e) Terms of put and call options**

- ~~— An approved participant or an approved person must not make or participate in an over the counter trade in any put or call option, unless such option:~~
  - ~~i) does not relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation; or~~
  - ~~ii) does relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation, but whose terms are materially different from those of any series of options issued by the Canadian Derivatives Clearing Corporation.~~
- ~~— For the purposes of the present section, writing over the counter options means the distribution of securities for which a prospectus may be required or for which specific or blanket exemptions may be necessary under the applicable securities legislation. The writer of over the counter options may, in effect, be an issuer distributing securities and so must, accordingly, ensure that such distribution complies with applicable securities legislation.~~
- ~~— Furthermore, put and call options written, issued or guaranteed by an approved participant must be in the form prescribed by the Bourse.~~

**(Point f) of article 9501 is abrogated)**

**f) Procedure**

- ~~— Put and call options must not be settled through a clearing corporation.~~
- ~~— A put or call option, when exercised, becomes a contract for the sale or purchase of the securities covered by the put or call at the contract price for settlement within the time provided by the Bourse, provided, however, that settlement and delivery be over the counter and not through a clearing corporation.~~
- ~~— The contract arising from the exercise of a put or call shall be deemed to be an exchange contract.~~

**gd) Confirmation, delivery and exercise**

- i) Every over-the-counter option must be confirmed in writing as between the parties, such confirmation to be mailed or delivered on the day of the transaction;
- ii) payment, settlement, exercise and delivery of an over-the-counter option must be made in accordance with the terms of the over-the-counter option contract.

**(Point h) of article 9501 becomes new article 6692)**

**h) Semi-monthly returns**

- ~~— Approved participants are required to report as of the close of business on the fifteenth and last days of each month or, when either of these days is not a trading day, on the preceding trading day, the total puts and calls written and issued or guaranteed during the period which has ended.~~

**9502 ~~Margin requirements – Simple Long Positions~~ Client Accounts – Positions in and Offsets Involving Over-the-Counter Options**  
(01.01.05, 00.00.05)

~~All purchases of over the counter options for clients accounts must be for cash~~ For client accounts, the margin requirements applicable to positions in and offsets involving over-the-counter options are the same as the margin requirements set out for options in Sections 9101-9200 and 9301-9400 of the present Rule, subject to the limitations for offsets set out in article 9504.

**9503 ~~Margin Requirements – Simple Short Positions~~ Approved Participant Accounts – Positions in and Offsets Involving Over-the-Counter Options**  
(01.01.05, 00.00.05)

~~Subject to articles 9501 e) and 9505, the margin requirements for short positions in over the counter options must be as follows:~~

- ~~a) In the case of a short over the counter option position, the margin required is equal to:~~
- ~~i) 100% of the current premium of the short over the counter option;~~
  - ~~ii) plus the product of multiplying the margin rate applicable to the underlying interest by the market value of the underlying interest; and~~
  - ~~iii) less any out of the money amount.~~
- ~~b) Notwithstanding paragraph a), in the case of a short over the counter option position held in a client account, the minimum margin must not be less than:~~
- ~~i) 100% of the current premium of the option; and~~
  - ~~ii) plus 25% of the product of multiplying the margin rate applicable to the underlying interest by the market value of the underlying interest.~~

For approved participant accounts and other firm accounts, the capital requirements for positions in and offsets involving over-the-counter options are the same as the capital requirements set out for options in Sections 9201-9300 and 9401-9500 of the present Rule, subject to the limitations for offsets set out in article 9504.

**9504 Margin Requirements – Paired Option Positions Limitations on Offsets**  
(01.01.05, 00.00.05)

~~a) Except as otherwise provided in the present section, clients, as defined at article 9501 e), are permitted margin offsets for the purpose of hedging over the counter options in the same manner as set out in section 9101-9150 and in section 9301-9350, provided that the underlying interest is the same;~~

~~b) In the case of spreads involving European exercise-style over-the-counter options, a margin or capital offset is permitted only in the following cases:~~

- ~~i) where the spread consists of a long and a short European exercise-style options having the same expiration date; or~~
- ~~ii) where the spread consists of a short European exercise-style option and a long American exercise option;~~

~~e) However, a margin and capital offset is not permitted where the spread consists of a long European exercise-style option and a short American exercise-style option.~~

**9505 Acceptable Forms of Margin**  
(01.01.05, 00.00.05)

**a) The following constitutes adequate margin for over-the-counter options:**

- i) a specific deposit of the underlying interest, in a negotiable form, in the client's margin account with the approved participant;
- ii) a deposit with the approved participant of an escrow receipt, as defined in paragraph b), in respect of the underlying interest; or
- iii) a letter of guarantee issued by a bank or a trust company in virtue of which this institution undertakes to receive or deliver securities for a client account.

**b) Escrow Rreceipt**

The evidence of a deposit of an over-the-counter option's underlying interest shall be deemed an escrow receipt for the purposes hereof if the underlying interest is held pursuant to an escrow agreement by a custodian that is a depository ~~approved by the clearing corporation pursuant to an escrow agreement,~~ acceptable to the Bourse, ~~between the approved participant with which the escrow receipt is deposited and the approved depository.~~

**c) The requirements of this article apply, regardless of any otherwise available margin reduction or margin offset, in the following circumstances:**

- i) where an over-the-counter option is written-sold by a client that is not an acceptable institution, an acceptable counterparty or a regulated entity, as such terms are defined in the Joint Regulatory Financial Questionnaire and Report Policy C-3 of the Bourse, as amended from time to time;

- ii) where the terms of the over-the-counter option require settlement by physical delivery of the underlying interest; and
- iii) where the Bourse has not established a margin rate less than 100% for the underlying interest.

~~9506—9510 (Reserved for future use)~~

**9511 Capital Requirements - General Provisions**

(01.01.05, abr. 00.00.05)

~~a) Basis of valuation~~

~~—Over the counter option positions in inventory must be marked to the market daily by calculating the value on a basis consistent with the valuation benchmark or mathematical model used in determining the premium at the time the contract was initially entered.~~

~~b) Terms of put and call options~~

~~—An approved participant or an approved person must not make or participate in an over the counter trade in any put or call option, unless such option:~~

- ~~i) does not relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation; or~~
- ~~ii) does relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation, but whose terms are materially different from those of any series of options issued by the Canadian Derivatives Clearing Corporation.~~

~~—For the purposes of the present section, writing over the counter options means the distribution of securities for which a prospectus may be required or for which specific or blanket exemptions relief may be necessary under the applicable securities legislation. The writer of over the counter options may, in effect, be an issuer distributing securities and so must, accordingly, ensure that such distribution complies with applicable securities legislation.~~

~~—Furthermore, put and call options written, issued or guaranteed by an approved participant must be in the form prescribed by the Bourse.~~

~~c) Procedure~~

~~—Put and call options must not be settled through a clearing corporation.~~

~~—A put or call option, when exercised, becomes a contract for the sale or purchase of the securities covered by the put or call at the contract price for settlement within the time provided by the Bourse, provided, however, that settlement and delivery be over the counter and not through a clearing corporation.~~

~~—The contract arising from the exercise of a put or call must be deemed to be an exchange contract.~~

~~d) Confirmation, delivery and exercise~~

- ~~i) Every over the counter option must be confirmed in writing as between the parties, such confirmation to be mailed or delivered on the day of the transaction.~~
- ~~ii) Payment, settlement, exercise and delivery of an over the counter option must be made in accordance with the terms of the over the counter option contract.~~

~~e) Semi-monthly returns~~

~~—Approved participants are required to report as of the close of business on the fifteenth and last days of each month or, when either of these days is not a trading day, on the preceding trading day, the total puts and calls written and issued or guaranteed during the period which has ended.~~

**9512 Capital Requirements - Simple Long Positions**

(01.01.05, abr. 00.00.05)

- ~~a) The capital required for a long call and for a long put, where the over the counter option's premium is less than \$1, must be equal to the market value of the option;~~
- ~~b) the capital required on a long call, where the over the counter option's premium is \$1 or more and which is not used to offset the capital required on any other position, must be equal to the market value of the call, less 50% of the excess of the market value of the underlying interest over the exercise price of the call;~~
- ~~c) the capital required on a long put, where the over the counter option's premium is \$1 or more and which is not used to offset the capital required on any other position, must be equal to the market value of the put, less 50% of the excess of the exercise price of the put over the market value of the underlying interest.~~

**9513 Capital Requirements - Simple Short Positions**

(01.01.05, abr. 00.00.05)

~~—The capital requirements for short positions in over the counter options in inventory must be as follows:~~

- ~~a) In the case of a short over the counter option position, the capital required is equal to:
  - ~~i) 100% of the current premium of the short over the counter option;~~
  - ~~ii) plus the product of multiplying the margin rate applicable to the underlying interest by the market value of the underlying interest; and~~
  - ~~iii) less any out of the money amount.~~~~

**9514 Capital Requirements - Paired Option Positions**

(01.01.05~~abr.~~ 00.00.05)

- ~~a) Except as otherwise provided in this section, approved participants are permitted capital offsets for the purpose of hedging over the counter options in the same manner as set out in section 9201-9150 and in section 9401-9450, provided that the underlying interest is the same.~~
- ~~b) In the case of spreads involving European exercise over the counter options, capital offset is permitted only in the following cases:
  - ~~i) where the spread consists of a long and a short European exercise options having the same expiration date; or~~
  - ~~ii) where the spread consists of a short European exercise option and a long American style option.~~~~
- ~~e) A capital offset is not permitted where the spread consists of a long European exercise option and a short American exercise option.~~

**~~9515~~9506 Capital Reduction Allowed for Positions Held by Approved Participants**

(01.01.05, 00.00.05)

Consistent with exchange listed options, approved participants are permitted to apply the premium credit generated on a short over-the-counter option against the capital required pursuant to this section.

However, the excess of the premium credit generated on a short over-the-counter option over the capital required on the subject position must not be used to reduce the capital required on another position.

**Section 6671 - ~~6700~~6690**  
**Exercise, Settlement and Delivery**

**Section ~~6671-6691-6700~~**  
**Over-the-counter (OTC) Options**

**(New article 6692 is a transfer of point e) of article 9501)**

**9501~~6691~~ Terms of Over-the-Counter Options**

**(01.01.05, ~~00.00.05~~)**

**~~e) Terms of put and call options~~**

An approved participant or an approved person must not make or participate in an over-the-counter trade in any ~~put or call~~ option, unless such option:

- i) does not relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation; or
- ii) does relate to underlying securities which are the object of options issued by the Canadian Derivatives Clearing Corporation, but whose terms are materially different from those of any series of options issued by the Canadian Derivatives Clearing Corporation.

For the purposes of the present section, ~~writing-selling~~ over-the-counter options means the distribution of securities for which a prospectus may be required or for which specific or blanket exemptions may be necessary under the applicable securities legislation. The ~~writer-seller~~ of over-the-counter options may, in effect, be ~~deemed to be~~ an issuer distributing securities and so must, accordingly, ensure that such distribution complies with applicable securities legislation.

~~—Furthermore, put and call options written, issued or guaranteed by an approved participant must be in the form prescribed by the Bourse.~~

**(New article 6692 is a transfer of point h) of article 9501)**

**6692 Semi-monthly Returns for Over-the-Counter Options**

**(00.00.05)**

**~~h) Semi-monthly returns~~**

Approved participants are required to report as of the close of business on the fifteenth and last days of each month or, when either of these days is not a trading day, on the preceding trading day, the total ~~puts and calls written and~~ over-the-counter options sold, issued or guaranteed during the period which has ended.