INVESTMENT DEALERS ASSOCIATION OF CANADA

bulletin

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

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For distribution to relevant parties within your firm

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By-laws and Regulations

Amendments to Regulation 100.9 and 100.10 – Positions in and offsets involving exchange-traded derivatives

The Board of Directors of the Association has approved amendments to Regulation 100.9 and 100.10 relating to positions in and offsets involving exchange-traded derivatives. These amendments, a black line copy of which is enclosed as Attachment #1, are effective January 1, 2005.

Present Rules and Amendments

Regulations 100.9 and 100.10 have been amended to address the following major issues identified in the current strategy based rules: (1) the current rules are too product specific, in some instances, resulting in rule duplication and in other cases, the rule not being available for similar products; (2) certain offset strategies are only available for Member firm accounts, but should extend customer accounts; (3) excess conservatism has been found for certain existing offset strategies; and (4) the rules for specific offset strategies are hard to find.

To address the above noted issues, the amendments:

- Expand the number of offsets available in customer accounts by permitting the use of offset strategies that are currently exclusive to Member firm accounts;
- Broaden the application of the existing rules through the adoption of more generic product definitions;
- Standardize the drafting language used to improve consistency of rule wording;
- Make the rules easier to find by inserting descriptive rule titles and re-ordering the rules; and
- Remove excess conservatism found in the current requirements.

Kenneth A. Nason
Association Secretary

Attachment #1

INVESTMENT DEALERS ASSOCIATION OF CANADA

CAPITAL AND MARGIN REQUIREMENTS FOR POSITIONS IN OPTIONS, FUTURES AND OTHER EQUITY-RELATED DERIVATIVES

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 100.9 is repealed and replaced[1] as follows:

" 100.9. Customer positions in options, futures and other equity-related derivatives

(a) For the purposes of this Regulation 100.9:

(i) the term "aggregate current value" means, in the case of index options, the level of the index at any given time multiplied by $1.00 and then multiplied by the unit of trading.

(ii) the term "aggregate exercise value" means the exercise price of an option multiplied by the unit of trading.

(iii) the term "call option" means an option:

(A) for equity, participation unit, and bond options, which gives the holder the right to buy and the writer the obligation to sell the underlying interest at a stated exercise price either on or before the expiration date of the option;

(B) for index options, which gives the holder the right to receive and the writer the obligation to pay, if the current value of the index rises above the exercise price, the difference between the aggregate exercise price and the aggregate current value of the underlying interest either on or before the expiration date of the option; or

(C) for OCC options, which gives the holder the right to buy and the writer the obligation to sell the underlying interest at a stated exercise price either on or before the expiration date of the OCC option;

(iv) the term "class of options" means all options of the same type covering the same underlying interest.

(v) the term "clearing corporation" means, in respect of an option, the clearing corporation or other organization which is the issuer of the option.

(vi) the term "customer account" means an account for a customer of a Member, but does not include an account in which a member of a self-regulatory organization, or an affiliate, approved person or employee of such a Member, member or affiliate, as the case may be, has a direct or indirect interest, other than an interest in a commission charged.

(vii) the term "escrow receipt" means:

(A) in the case of an equity, a participation unit or a bond option, a document issued by a financial institution approved by Canadian Derivatives Clearing Corporation certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified option of a particular customer of a Member; or

(B) in the case of an OCC option, a document issued by a depository approved by the clearing corporation, after executing and delivering agreements required by The

[1] Note: Due to the complexity of the amendments, manual black lining has been performed for only those areas where new requirements have been adopted or existing requirements have been substantively changed. Footnotes to the amendments have been inserted to describe all substantive changes.

Options Clearing Corporation, certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified OCC option of a particular customer of a Member;

(viii) the term "exercise price" in respect of an option means:

(A) in the case of an equity, a participation unit or a bond option, the specified price per unit at which the underlying interest may be received in the case of a call option, or delivered, in the case of a put option;

(B) in the case of index options, the specified price per unit, which may be received by the holder and paid by the writer in the case of a call option or a put option; or

(C) in the case of an OCC option, the specified price per unit at which the underlying interest may be received in the case of a call option, or delivered, in the case of a put option;

upon exercise of the option.

(ix) the term "firm account" means an account established by a Member, which is confined to positions carried by the Member on its own behalf.

(x) the term "floating margin rate" means:

(A) the last calculated regulatory margin interval, effective for the regular reset period or until a violation occurs, such rate to be reset on the regular reset date, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate; or

(B) where a violation has occurred, the last calculated regulatory margin interval determined at the date of the violation, effective for a minimum of twenty trading days, such rate to be reset at the close of the twentieth trading day, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate.

For the purposes of this definition, the term "regular reset date" is the date subsequent to the last reset date where the maximum number of trading days in the regular reset period has passed.

For the purposes of this definition, the term "regular reset period" is the normal period between margin rate resets. This period shall be determined by the Canadian self regulatory organizations with member regulation responsibilities and shall be no longer than 60 trading days.

For the purposes of this definition, the term "regulatory margin interval", when calculated, means the sum of:

(C) the product of:

(I) the maximum standard deviation of percentage changes in daily closing prices over the most recent 20, 90 and 260 trading days; and

(II) 3 (for a 99% confidence interval); and

(III) the square root of 2 (for two days coverage);

and

(D) 0.50% (representing a cushion);

rounded up to the next quarter percent.

For the purposes of this definition, the term "violation" means the circumstance where the maximum 1 or 2 day percentage change in the daily closing prices is greater than the margin rate. [2]

[2] The definition of "floating margin rate" has been amended to give the SROs the ability to determine the regular margin rate reset period. The previous definition set the regular reset period at 60 trading days. The new definition allows greater discretion in setting this period and accommodates the current practice of the Bourse de Montréal to reset rates each month.

(xi) the term "incremental basket margin rate" means for a qualifying basket of index securities:

(A) 100% less the cumulative relative weight percentage (determined by calculating for each security the actual basket weighting in relation to the latest published relative weighting in the index and then determining an overall relative weight percentage) for the qualifying basket of index securities, multiplied by

(B) the weighted average margin rate for those equity securities comprising the basket for which the actual weighting is less than the latest published relative weight for the index (weighted by the percentage weighting deficiency for each security (i.e., the published relative weighting minus the actual weighting, if applicable)).

(xii) the term "index" means an equity index where:

(A) the basket of equity securities underlying the index is comprised of eight or more securities;

(B) the single largest security position by weighting comprises no more than 35% of the overall market value of the basket;

(C) the average market capitalization for each security position in the basket of equity securities underlying the index is at least $50 million; and

(D) in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange, as set out in the definition of "regulated entities" included in the General Notes and Definitions to Form 1.[3]

(xiii) the term "index option" means an option whose underlying interest is an index.

(xiv) the term "in-the-money" means:

(A) in the case of an equity, a participation unit or a bond option, that the market price;

(B) in the case of an index option, that the current value; or

(C) in the case of an OCC option, that the market price or the current value;

of the underlying interest is above the exercise price in the case of a call option, and below the exercise price in the case of a put option.

(xv) the term "market maker account" means a firm account of a clearing member that is confined to transactions initiated by a market maker.

(xvi) the term "non-customer account" means an account established with a Member by another member of a self-regulatory organization, or affiliate, approved person or employee of a Member, member or affiliate, as the case may be, in which the Member does not have an interest, direct or indirect, other than an interest in fees or commissions charged.

(xvii) the term "OCC option" means a call option or a put option issued by The Options Clearing Corporation.

(xviii) the term "option" means a call option or put option issued by the Canadian Derivatives Clearing Corporation pursuant to its rules.

(xix) the term "out-of-the-money" means:

(A) in the case of an equity, a participation unit or a bond option, that the market price;

(B) in the case of an index option, that the current value; or

(C) in the case of an OCC option, that the market price or the current value;

of the underlying interest is below the exercise price in the case of a call option, and above the exercise price in the case of a put option.

(xx) the term "participation unit" means an interest in a trust, the underlying assets of which are

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3 A new definition for the term "index" has been added to restrict the use of the "floating margin rate" methodology to those indices, both sector indices and broadly based indices, that meet the criteria set out.

equities and/or other securities.

(xxi) the term “participation unit option” means an option whose underlying interest is a participation unit.

(xxii) the term “premium” means the aggregate price, excluding commissions and other fees, that the buyer of an option pays and the writer of an option receives for the rights conveyed by the option contract.

(xxiii) the term “put option” means, an option:

(A) for an equity, a participation unit or a bond option, which gives the holder the right to sell and the writer the obligation to buy the underlying interest at a stated exercise price either on or before the expiration date of the option;

(B) for index options, which gives the holder the right to receive and the writer the obligation to pay, if the current value of the index falls below the exercise price, the difference between the aggregate exercise price and the aggregate current value of the underlying interest either on or before the expiration date of the option; or

(C) for OCC options, which gives the holder the right to sell and the writer the obligation to buy the underlying interest at a stated exercise price either on or before the expiration date of the OCC option;

(xxiv) the term “qualifying basket of index securities” means a basket of equity securities:

(A) all of which are included in the composition of the same index;

(B) which comprise a portfolio with a market value equal to the market value of the securities underlying the index;

(C) where the market value of each of the equity securities comprising the portfolio proportionally equals or exceeds the market value of its relative weight in the index, based on the latest published relative weights of securities comprising the index;

(D) where the required cumulative relative weighting percentage of all equity securities comprising the portfolio:

(I) equals 100% of the cumulative weighting of the corresponding index, where the basket of equity securities underlying the index is comprised of less than twenty securities;

(II) equals or exceeds 90% of the cumulative weighting of the corresponding index, where the basket of equity securities underlying the index is comprised of twenty or more securities but less than one hundred securities; and

(III) equals or exceeds 80% of the cumulative weighting of the corresponding index, where the basket of equity securities underlying the index is comprised of one hundred or more securities;

based on the latest published relative weightings of the equity securities comprising the index;

(E) where, in the circumstance where the cumulative relative weighting of all equity securities comprising the portfolio equals or exceeds the required cumulative relative weighting percentage and is less than 100% of the cumulative weighting of the corresponding index, the deficiency in the basket is filled by other equity securities included in the composition of the index.[4]

(xxv) the term “tracking error margin rate” means the last calculated regulatory margin interval for the tracking error resulting from a particular offset strategy. The method of calculation and the

[4] A new definition for the term “qualifying basket of index securities” has been added to allow for varying cumulative weighting percentage requirements to be met for an index basket to be considered a qualifying basket for offset purposes, based on the number of issues included in the index. This addresses the operational issues associated with hedging larger index baskets while ensuring the price correlations relating to hedging with smaller index baskets are kept high.

margin rate reset policy is the same as that used for the floating margin rate.

(xxvi) the term "underlying interest" means,

(A) in the case of an equity, a participation unit or a bond option, the security;

(B) in the case of an index option, the index;

(C) in the case of an OCC option in a currency, the currency;

(D) in the case of an OCC option in debt, the debt;

(E) in the case of an OCC option in an index, the index;

(F) in the case of any other OCC option, the security;

which is the subject of the option.

(xxvii) the term "unit of trading" means the number of units of the underlying interest which have been designated by the exchange as the minimum number or value to be the subject of a single option in a series of options. In the absence of any such designation, for a series of options:

(A) in which the underlying interest is an equity, the unit of trading shall be 100 shares;

(B) in which the underlying interest is an index, the unit of trading shall be 100 units;

(C) in which the underlying interest is a bond, the unit of trading shall be 250 units;

(D) in which the underlying interest is a participation unit, the unit of trading shall be 100 units.

(b) **Exchange traded options – general margin requirements**

The minimum amount of margin which must be obtained in margin accounts of customers having positions in options shall be as follows:

(i) All opening writing transactions and resulting short positions must be carried in a margin account.

(ii) Each option shall be margined separately and:

(A) in the case of equity or participation unit options, any difference between the market price of the underlying interest; or

(B) in the case of index options, any difference between the current value of the index,

and the exercise price of the option shall be considered to be of value only in providing the amount of margin required on that particular option;

(iii) Where a customer account holds both options and OCC options that have the same underlying interest, the OCC options may be considered to be options for the purposes of the calculation of the margin requirements for the account under this Regulation 100.9.

(iv) From time to time the Association may impose special margin requirements with respect to particular options or particular positions in options.

(c) **Long option positions**

(i) Subject to sub-paragraph (ii), all purchases of options shall be for cash and long positions shall have no loan value for margin purposes.

(ii) Where in the case of equity options, the underlying interest in respect of a long call option is the subject of a legal and binding cash take-over bid for which all conditions have been met, the margin required on such call option shall be the market value of the call option less the amount by which the amount offered exceeds the exercise price of the call option. Where such a take-over bid is made for less than 100% of the issued and outstanding securities, the margin requirement shall be applied pro rata in the same proportion as the offer and paragraph (c)(i) shall apply to the balance.

(d) **Short option positions**

(i) The minimum credit requirement which must be maintained in respect of an option carried short in a customer account shall be:

(A) 100% of the current market value of the option; plus

(B) a percentage of the market value of the underlying interest determined using the following percentages:

(I) For equity options or equity participation unit options, the margin rate used for the underlying interest;

(II) For index options or index participation unit options, the published floating margin rate for the index or index participation unit;

minus;

(C) any out-of-the-money amount associated with the option.

(ii) Paragraph (d)(i) notwithstanding, the minimum credit requirement which must be maintained and carried in a customer account trading in options shall be not less than:

(A) 100% of the current market value of the option; plus

(B) an additional requirement determined by multiplying:

(I) In the case of a short call option position, the market value of the underlying interest; or

(II) In the case of a short put option position, the aggregate exercise value of the option;

by one of the following percentages:

(III) For equity options or equity participation unit options, 5.00%; or

(IV) For index options or index participation unit options, 2.00%.[5]

(e) **Covered option positions**

(i) No margin shall be required for a call option carried short in a customer's account which is covered by the deposit of an escrow receipt. The underlying interest deposited in respect of such options shall not be deemed to have any value for margin purposes.

Evidence of a deposit of the underlying interest shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation;

(ii) No margin shall be required for a put option carried short in a customer's account which is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the client. The acceptable government securities held on deposit:

(A) shall be government securities:

(I) which are acceptable forms of margin for the clearing corporation; and

(II) which mature within one year of their deposit, and

(B) shall not be deemed to have any value for margin purposes.

The aggregate exercise value of the short put option shall not be greater than 90% of the

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5 The amended requirement changes the minimum margin requirement for a short put option to include a minimum percentage amount based on the aggregate exercise value of the option rather than the market value of the underlying security. This minimum requirement only comes into effect when the short put option is “deep out-of-the-money”. The change corrects the anomaly in the current rule where, as the market price of a security increases, the minimum margin requirement also increases. This change also conforms the requirement for short put options to that set out in NASD 2520(f)(2)(D).

aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

(iii) No margin shall be required for a put option carried short in a customer's account if the customer has delivered to the Member with which such position is maintained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Association, and is:

(A) a bank which is a Canadian chartered bank or a Quebec savings bank; or

(B) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of $5,000,000,

provided that the letter of guarantee certifies that the bank or trust company,

(C) holds on deposit for the account of the customer cash in the full amount of the aggregate exercise value of the put option and that such amount will be paid to the clearing corporation against delivery of the underlying interest covered by the put option; or

(D) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put option against delivery of the underlying interest covered by the put option,

and further provided that the Member has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

(f) **Option spreads and combinations**

(i) **Call spreads and put spreads**

Where a customer account contains one of the following spread pairings:

- long call option and short call option; or
- long put option and short put option;

and the short option expires on or before the date of expiration of the long option, the minimum margin required for the spread pairing shall be the lesser of:

(A) the margin required on the short option pursuant to sub-paragraphs 100.9(d)(i) and (ii); or

(B) the spread loss amount, if any, that would result if both options were exercised.

(ii) **Short call – short put spreads**

Where a call option is carried short for a customer's account and the account is also short a put option on the same number of units of trading on the same underlying interest, the minimum ~~credit~~margin required shall be the greater of:

~~(A) the greater of:~~

~~(I) the credit required on the short call position; or~~

~~(II) the credit required on the short put position;~~

~~plus~~

~~(B) any in-the-money amount associated with the position in (A) having the lower credit requirement;~~

(A) the greater of:

(I) the margin required on the call option position; or

(II) the margin required on the put option position;

and

(B) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.[6]

(iii) **Long call – long put**

Where a call option is carried long for a customer's account and the account is also long a put option on the same number of units of trading on the same underlying interest, the minimum margin required shall be:

(A) 100% of the market value of the call option; plus

(B) 100% of the market value of the put option; minus

(C) the greater of:

(I) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option; or

(II) 50% of the total of the amount by which each option is in-the-money.[7]

(iv) **Long call – short call – long put**

Where a call option is carried long for a customer's account and the account is also short a call option and long a put option on the same number of units of trading on the same underlying interest, the minimum margin required shall be:

(A) 100% of the market value of the long call option; plus

(B) 100% of the market value of the long put option; minus

(C) 100% of the market value of the short call option; plus

(D) the greater of:

(I) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; and

(II) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in (D) is negative, this amount may be applied against the margin charge.[8]

(v) **Short call – long warrant**

Where a call option is carried short for a customer's account and the account is also long a warrant on the same number of units of trading on the same underlying interest, the minimum margin required shall be the sum of:

(A) the lesser of:

(I) the margin required for the call option pursuant to sub-paragraph 100.9(d)(i)(B); or

(II) the spread loss amount, if any, that would result if both the option and the warrant were exercised.

and;

(B) the excess of the market value of the warrant over the in-the-money value of the warrant multiplied by 25%; and

(C) the in-the-money value of the warrant, multiplied by:

(I) 50%, where the expiration date of the warrant is 9 months or more away, or

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6 There was an anomaly in the previous requirement for spreads where both options were in-the-money and the calculated margin requirement for each individual short option was the same. The amended requirement assumes both options will be exercised if they are in-the-money and determines a margin requirement in this instance based on the difference between the exercise values of both options.

7 The existing offset for Member firm account positions is being made available for customer account positions.

8 The existing offset for Member firm account positions is being made available for customer account positions.

(II) 100%, where the expiration date of the warrant is fewer than 9 months away.

The market value of any premium credit carried on the short call option may be used to reduce the margin required on the long warrants, but cannot reduce the margin required to less than zero.[9]

(g) **Option and security combinations**

(i) **Short call – long underlying (or convertible) combination**

Where, in the case of equity or equity participation unit options, a call option is carried short in a customer's account and the account is also long an equivalent position in the underlying interest or, in the case of equity options in a security readily convertible or exchangeable (without restrictions other than the payment of consideration and within a reasonable time provided such time shall be prior to the expiration of the call option) into the underlying interest, or in the case of equity participation unit options in securities readily exchangeable into the underlying interest, the minimum margin required shall be the sum of:

~~(A) the margin required on the long security position, in the case of equity or equity participation unit options, based on the market value of such security or the exercise value of the short call option, whichever is lower; and~~

~~(B) where a convertible security or exchangeable security is held, the amount of the conversion loss as defined in Regulation 100.4H.~~

(A) the lesser of:

(I) the normal margin required on the underlying interest; and

(II) any excess of the aggregate exercise value of the call options over the normal loan value of the underlying interest;

and

(B) where a convertible security or exchangeable security is held, the amount of the conversion loss as defined in Regulation 100.4H.[10]

In the case of exchangeable or convertible securities, the right to exchange or convert the long security shall not expire prior to the expiration date of the short call option. If the expiration of the right to exchange or convert is accelerated (whether by reason of redemption or otherwise), then such short call option shall be considered uncovered after the date on which such right to exchange or convert expires.

(ii) **Short put – short underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried short in a customer's account and the account is also short an equivalent position in the underlying interest, the minimum ~~credit~~margin required shall be the lesser of:~~the credit required on the short security position, in the case of equity or equity participation unit options, based on the market value of such security or the exercise value of the short put, whichever is greater.~~

(A) the normal margin required on the underlying interest; and

(B) any excess of the normal credit required on the underlying interest over the aggregate

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9 The existing offset for Member firm account positions is being made available for customer account positions.

10 The previous approach was to require margin based on 30% of the lesser of: (i) the market value of the stock, and (ii) the exercise value of the call options. Under this approach, where the options were either at-the-money or in-the-money, the margin required was 30% of the exercise value of the call options no matter how in-the-money the call options were. This lead to significantly higher than necessary margin requirements for offsets involving options that were deep in-the-money (i.e., where the security market value is at least 30% above the exercise value of the call options). The amended requirement limits the margin requirement for an offset involving deep in-the-money call options to the maximum loss that would be experienced with a 30% price drop.

exercise value of the put options.[11]

(iii) **Long call – short underlying combination**

Where, in the case of equity or equity participation unit options, a call option is carried long in a customer's account and the account is also short an equivalent position in the underlying interest, the minimum credit required shall be the sum of:

(A) 100% of the market value of the call option; and

(B) the lesser of:

(I) the aggregate exercise value of the call option; and

(II) the normal credit required on the underlying interest.

(iv) **Long put – long underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried long in a customer's account and the account is also long an equivalent position in the underlying interest, the minimum margin required shall be the lesser of:

~~(A) 100% of the market value of the long put; plus~~

~~(B) the minimum margin requirement for the long security position; minus~~

~~(C) any in-the-money amount associated with the long put;~~

(A) the normal margin required on the underlying interest; and

(B) the excess of the combined market value of the underlying interest and the put option over the aggregate exercise value of the put option.[12]

(v) **Conversion or long tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried long in a customer's account and the account is also long an equivalent position in put options and short an equivalent position in call options, the minimum margin required shall be:

(A) 100% of the market value of the long put options; minus

(B) 100% of the market value of the short call options; plus

(C) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the call options.[13]

(vi) **Reconversion or short tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried short in a customer's account and the account is also long an equivalent position in call options and short an equivalent position in put options, the minimum margin required shall be:

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[11] The previous approach was to require margin based on 30% of the greater of: (i) the market value of the stock, and (ii) the exercise value of the put option. Under this approach where the option is either at-the-money or in-the-money, the margin required was the exercise value of the put option no matter how in-the-money the put option was. This lead to significantly higher than necessary margin requirements for hedges involving options that were deep in-the-money (i.e., where the security market value is at least 30% below the exercise value of the put option). The amended requirement limits the margin requirement for an offset involving a deep in-the-money put option to the maximum loss that would be experienced with a 30% price increase.

[12] The previous approach gave no loan value to the intrinsic value of the put option. As a result, in situations where the put option is in-the-money, the net loan value granted to the combined long stock/long put options positions was significantly less than the exercise value of the put option. The amended approach only requires margin on an offset involving an in-the-money put option to the extent of any time value.

[13] The existing offset for Member firm account positions is being made available for customer account positions.

(A) 100% of the market value of the long call options; minus

(B) 100% of the market value of the short put options; plus

(C) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the put options.

~~Where the call options are in-the-money, this in-the-money value may be applied against the capital required.~~[14]

(h) **Offset combinations involving index products**

(i) **Option spreads**

In addition to the option spreads permitted in Regulation 100.9(f), the following additional option spread strategies are available for positions in index options and index participation unit options:

(A) **Box spread**

Where a customer account contains one of the following box spread combinations:

- box spread involving index options; or
- box spread involving index participation unit options;

such that a customer holds a long and short call option and a long and short put option with the same expiry month and where the long call option and short put option, and short call option and long put option have the same strike price, the minimum margin required shall be the lesser of:

(I) the greater of the margin requirements calculated for the component call and put spreads (Regulation 100.9(f)(i)), and

(II) the greater of the out-of-the-money amounts calculated for the component call and put spreads

(B) **Long butterfly spread**

Where a customer account contains one of the following butterfly spread combinations:

- long butterfly spread involving index options; or
- long butterfly spread involving index participation unit options;

such that a customer holds a short position in two call options (or put options) and the short call options (or short put options) are at a middle strike price and are flanked on either side by a long call option (or long put option) having a lower and higher strike price respectively, the minimum margin required shall be the net market value of the short and long call options (or put options).

(C) **Short butterfly spread**

Where a customer account contains one of the following butterfly spread combinations:

- short butterfly spread involving index options; or
- short butterfly spread involving index participation unit options;

such that a customer holds a long position in two call options (or put options) and the long call options (or long put options) are at a middle strike price and are flanked on either side by a short call option (or short put option) having a lower and higher strike price respectively, the minimum margin required shall be the amount, if any, by which the exercise value of the long call options (or long put options) exceeds the exercise value of the short call options (or short put options).

[14] The existing offset for Member firm account positions is being made available for customer account positions.

(ii) **Index option and index participation unit option spread combinations**

(A) **Call spread combinations and put spread combinations**

Where a customer account contains one of the following spread combinations:

- long index put option and short index participation unit put option; or
- long index call option and short index participation unit call option; or
- long index participation unit call option and short index call option; or
- long index participation unit put option and short index put option;

and the short option expires on or before the date of expiration of the long option, the minimum margin required for the spread combination shall be the lesser of:

(I) the margin required on the short option pursuant to sub-paragraphs 100.9(d)(i) and (ii); and

(II) the greater of:

(a) the loss amount, if any, that would result if both options were exercised; and

(b) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(B) **Short call – short put spread combinations**

Where a customer account contains one of the following combinations:

- short index call option and short index participation unit put option; or
- short index participation unit call option and short index put option;

the minimum ~~credit~~margin required~~ for the spread combination~~ shall be the ~~greater~~greatest of:

~~(I) the loss amount, if any, that would result if both options were exercised; and~~

~~(II) the greater of:~~

~~(a) the credit required on the short put option pursuant to paragraphs 100.9(d)(i) and (ii); and~~

~~(b) the credit required on the short call option pursuant to paragraphs 100.9(d)(i) and (ii).~~

(I) the greater of:

(a) the margin required on the short call option position; or

(b) the margin required on the short put option position;

and

(II) the excess of the aggregate exercise value of the short put option over the aggregate exercise value of the short call option;

and

(III) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[15]

(iii) **Index option combinations with index baskets and index participation units**

(A) **Short call option combinations with long qualifying index baskets or long index**

[15] There was an anomaly in the previous requirement for spreads where both options are in-the-money and the calculated margin requirement for each individual short option were the same. The amended requirement assumes both options will be exercised if they are in-the-money and determines a margin requirement in this instance based on the difference between the exercise values of both options.

participation units

Where a customer account contains one of the following option related combinations:

- short index call options and long an equivalent number of qualifying baskets of index securities; or
- short index call options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of index participation units;

the minimum margin required shall be the greater of:~~on the qualifying basket (or participation units), using the lower of the market value of the qualifying basket (or participation units) or the exercise value of the call options.~~

(I) the lesser of:

(a) the normal margin required on the qualifying basket (or participation units); and

(b) any excess of the exercise value of the call options over the normal loan value of the qualifying basket (or participation units);

and

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[16]

(B) **Short put option combinations with short qualifying index baskets or short index participation units**

Where a customer account contains one of the following option related combinations:

- short index put options and short an equivalent number of qualifying baskets of index securities; or
- short index put options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of index participation units;

the minimum ~~credit~~margin required shall be the greater of:~~credit required on the qualifying basket (or participation units), using the greater of the market value of the qualifying basket (or participation units) or the exercise value of the put options.~~

(I) the lesser of:

(a) the normal margin required on the qualifying basket (or participation

[16] The previous approach was to require margin based on the floating margin rate multiplied by the lesser of: (i) the market value of the index basket or index participation unit, and (ii) the exercise value of the call options. Under this approach, where the options were either at-the-money or in-the-money, the margin required was the floating margin rate multiplied by the exercise value of the call options no matter how in-the-money the call options were. This lead to significantly higher than necessary margin requirements for offsets involving options that were deep in-the-money (i.e., where the security market value is at least the floating margin rate percentage above the exercise value of the call option). The amended requirement limits the margin requirement for an offset involving deep in-the-money call options to the maximum loss that would be experienced with a price drop equal to the floating margin rate percentage.

units); and

(b) any excess of the normal credit required on the qualifying basket (or participation units) over the exercise value of the put options;

and

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[17]

(C) **Long call option combinations with short qualifying index baskets or short index participation units**

Where a customer account contains one of the following option related combinations:

- long index call options and short an equivalent number of qualifying baskets of index securities; or
- long index call options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of index participation units;

the minimum credit required shall be the sum of:

(I) 100% of the market value of the call options, and

(II) the greater of:

(a) the lesser of:

(i) the aggregate exercise value of the call options; and

(ii) the normal credit required on the qualifying basket (or participation units);

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(D) **Long put option combinations with long qualifying index baskets or long index participation units**

Where a customer account contains one of the following option related combinations:

- long index put options and long an equivalent number of qualifying baskets of index securities; or
- long index put options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- long index participation unit put options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or

[17] The previous approach was to require margin based on the floating margin rate multiplied by the greater of: (i) the market value of the index basket or index participation unit, and (ii) the exercise value of the put option. Under this approach where the option is either at-the-money or in-the-money, the margin required was the exercise value of the put option no matter how in-the-money the put option was. This lead to significantly higher than necessary margin requirements for offsets involving options that were deep in-the-money (i.e., where the security market value is at least the floating margin rate percentage below the exercise value of the put option). The amended requirement limits the margin requirement for an offset involving a deep in-the-money put option to the maximum loss that would be experienced with a price increase equal to the floating margin rate percentage.

- long index participation unit put options and long an equivalent number of index participation units;

the minimum margin required shall be the greater of:

~~(I) the sum of:~~

~~(a) 100% of the market value of the put options; and~~

~~(b) the lesser of:~~

~~(i) the normal margin required on the qualifying basket (or participation units); and~~

~~(ii) any excess of the market value of the qualifying basket (or participation units) and over the aggregate exercise value of the put options;~~

~~and;~~

~~(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.~~

(I) the lesser of:

(a) the normal margin required on the qualifying basket (or participation units); and

(b) the excess of the combined market value of the qualifying basket (or participation units) and the put option over the aggregate exercise value of the put option;

and;

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units[18]

(E) **Conversion or long tripo combinations**

Where a customer account contains one of the following option related combinations:

- long a qualifying basket of index securities, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or
- long index participation units, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to tracking error minimum margin); or
- long a qualifying basket of index securities, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or
- long index participation units, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options;

the minimum margin required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket.

[18] The previous approach gave no loan value to the intrinsic value of the put option. As a result, in situations where the put option was in-the-money, the net loan value granted to the combined long index basket or index participation unit and long put options positions was significantly less than the exercise value of the put option. The amended approach effectively only requires margin on an offset involving an in-the-money put option to the extent of any time value.

and;

(II) the greater of:

(a) the sum of:

(i) 100% of the market value of the long put options; minus

(ii) 100% of the market value of the short call options; plus

(iii) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the call options.

and;

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[19]

(F) Specific reconversion or short tripo combinations

Where a customer account contains one of the following option related combinations:

- short a qualifying basket of index securities, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or
- short index participation units, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to tracking error minimum margin); or
- short a qualifying basket of index securities, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or
- short index participation units, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options;

the minimum margin required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket.

and;

(II) the greater of:

(a) the sum of:

(i) 100% of the market value of the long call options; minus

(ii) 100% of the market value of the short put options; plus

(iii) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the put options.

and;

(b) where applicable, the published tracking error margin rate for a spread

[19] The existing offset for Member firm account positions is being made available for customer account positions.

between the index and the related participation units, multiplied by the market value of the underlying participation units.[20]

(iv) **Index basket combinations with index participation units**

(A) **Long qualifying index basket offset with short index participation units**

Where a position in a qualifying basket of index securities is carried long in a customer's account and the account is also short an equivalent number of index participation units, the margin required shall be the sum of the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket, multiplied by the market value of the participation units.

(B) **Short qualifying index basket offset with long index participation units**

Where a position in a qualifying basket of index securities is carried short in a customer's account and the account is also long an equivalent number of index participation units, the margin required shall be the sum of:

(I) the tracking error margin rate, unless the short basket is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units;

and;

(II) the calculated incremental basket margin rate for the qualifying basket;

multiplied by the market value of the participation units.

(v) **Index futures contract combinations with index baskets and index participation units**

Where a customer account contains one of the following futures related combinations:

- long (or short) a qualifying basket of index securities and short (or long) an equivalent number of index futures contracts; or
- long (or short) index participation units and short (or long) an equivalent number of index futures contracts;

the margin required shall be the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket (not applicable if hedging with participation units), multiplied by the market value of the qualifying basket (or participation units).

(vi) **Index option combinations with index futures contracts**

With respect to index options, index participation units options and index futures contracts held in customer accounts, where, the option contracts and the futures contracts have the same settlement date, or can be settled in either of the two nearest contract months, the option contracts and the futures contracts may be offset as follows:

(A) **Short index call options or short index participation unit call options - long index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

- short index call options and long index futures contracts (Note: Subject to tracking error minimum margin); or
- short index participation unit call options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be the greater of:

(I) (a) the margin otherwise required on the futures contracts; less

[20] The existing offset for Member firm account positions is being made available for customer account positions.

(b) the aggregate market value of the short call options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[21]

(B) **Short index put options or short index participation unit put options - short index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

- short index put options and short index futures contracts (Note: Subject to tracking error minimum margin); or
- short index participation unit put options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be the greater of:

(I) (a) the margin otherwise required on the futures contracts, less

(b) the aggregate market value of the short put options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[22]

(C) **Long index call options or long index participation unit call options - short index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

- long index call options and short index futures contracts (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) Out-of-the-money position

The aggregate exercise value of the long call options less the daily settlement value of the short futures contracts, to a maximum of the margin required on unhedged futures contracts, plus the aggregate market value of the call options;

(II) In-the-money or at-the-money position

The amount by which the aggregate market value of the call options exceeds the aggregate in-the-money amount of the call options;

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[23]

(D) **Long index put options or long index participation unit put options - long index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

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21 The existing offset for Member firm account positions is being made available for customer account positions.

22 The existing offset for Member firm account positions is being made available for customer account positions.

23 The existing offset for Member firm account positions is being made available for customer account positions.

- long index put options and long index futures contracts (Note: Subject to tracking error minimum margin); or
- long index participation unit put options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) Out-of-the-money position

The daily settlement value of the long futures contracts less the aggregate exercise value of the long put options, to a maximum of the margin required on unhedged futures contracts, plus the aggregate market value of the put options;

(II) In-the-money or at-the-money option position

The amount by which the aggregate market value of the put options exceeds the aggregate in-the-money amount of the put options;

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[24]

(E) **Conversion or long tripo combination involving index options or index participation unit options and index futures contracts**

Where a customer account contains one of the following tripo combinations:

- long index futures contracts and long index put options and short index call options with the same expiry date (Note: Subject to tracking error minimum margin); or
- long index futures contracts and long index participation unit put options and short index participation unit call options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) the greater of the difference, plus or minus, between the daily settlement value of the long futures contracts and the aggregate exercise value of the long put options or the short call options, plus

(II) the aggregate net market value of the put and call options.

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[25]

(F) **Reconversion or short tripo combination involving index options or index participation unit options and index futures contracts**

Where a customer account contains one of the following tripo combinations:

- short index futures contracts and long index call options and short index put options with the same expiry date (Note: Subject to tracking error minimum margin); or
- short index futures contracts and long index participation unit call options and short index participation unit put options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) the greater of the difference, plus or minus, between the aggregate exercise value of the long call options or short put options and the daily settlement value of the short futures contracts, plus

[24] The existing offset for Member firm account positions is being made available for customer account positions.

[25] The existing offset for Member firm account positions is being made available for customer account positions.

(II) the aggregate net market value of the call and put options.

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[26]

(G) With respect to the offsets enumerated in clauses (A) to (F), partial offsets are not permitted.

(i) **Cross index offset combinations involving index products**

Offsets are currently not available for offset positions in customer accounts involving products based on two different indices.

(j) **Margin requirements for positions in and offsets involving OCC options**

The margin requirements for OCC options shall be the same as set out in Regulation 100.9."

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[26] The existing offset for Member firm account positions is being made available for customer account positions.

2. Regulation 100.10 is hereby repealed and replaced as follows:

" **100.10. Member positions in options, futures and other equity-related derivatives**

(a) For the purposes of this Regulation 100.10:

(i) the terms "aggregate current value", "aggregate exercise value", "call option", "class of options", "clearing corporation", "customer account", "escrow receipt", "exercise price", "firm account", "floating margin rate", "incremental basket margin rate", "index ", "index option", "in-the-money", "market maker account", "non-customer account", "OCC option", "option", "out-of-the-money", "participation unit", "participation unit option", "premium", "put option", "qualifying basket of index securities", "tracking error margin rate", "underlying interest" and "unit of trading" mean the same as set out in Regulation 100.9(a).

(ii) the term "Member account" means all non-customer accounts including firm accounts, market maker accounts and specialist accounts.

(b) **Exchange traded options – general capital requirements**

The capital requirements with respect to options and options-related positions in securities held in Member accounts shall be as follows:

(i) in the treatment of spreads, the long position may expire before the short position;

(ii) for any short position carried for a customer or non-customer account where the account has not provided required margin, any shortfall will be charged against the Member's capital;

(iii) where a Member account holds both options and OCC options that have the same underlying interest, the OCC options may be considered to be options for the purposes of the calculation of the capital requirements for the account under this Regulation 100.10; and

(iv) from time to time the Association may impose special capital requirements with respect to particular options or particular positions in options.

(c) **Long option positions**

(i) For Member accounts, subject to sub-paragraph (ii), the capital required for a long option is the market value of the option. Where the option premium is $1.00 or more, the capital required for the option may be reduced by 50% of any in-the-money amount associated with the option.

(ii) Where in the case of equity options, the underlying interest in respect of a long call is the subject of a legal and binding cash take-over bid for which all conditions have been met, the capital required on such call shall be the market value of the call less the amount by which the amount offered exceeds the exercise price of the call. Where such a take-over bid is made for less than 100% of the issued and outstanding securities, the capital requirement shall be applied pro rata in the same proportion as the offer and paragraph (c)(i) shall apply to the balance.

(d) **Short option positions**

The capital requirement which must be maintained in respect of an option carried short in a Member account shall be:

(i) (A) in the case of equity or equity participation unit options, the market value of the equivalent number of equity securities or participation units, multiplied by the underlying interest margin rate; or

(B) in the case of index participation unit options, the market value of the equivalent number of index participation units, multiplied by the floating margin rate; or

(C) in the case of index options, the aggregate current value of the index, multiplied by the floating margin rate;

minus;

(ii) any out-of-the-money amount associated with the option.

(e) **Covered option positions**

(i) No capital shall be required for a call option carried short in a Member account, which is covered by the deposit of an escrow receipt. The underlying interest deposited in respect of such options shall not be deemed to have any value for capital purposes.

Evidence of a deposit of the underlying interest shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation.

(ii) No capital shall be required for a put option carried short in a Member account which is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the Member. The acceptable government securities held on deposit:

(A) shall be government securities:

(I) which are acceptable forms of margin for the clearing corporation; and

(II) which mature within one year of their deposit; and

(B) shall not be deemed to have any value for margin purposes.

The aggregate exercise value of the short put options shall not be greater than 90% of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

(iii) No capital shall be required for a put option carried short in a Member account if the Member has obtained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Association, and is:

(A) a bank which is a Canadian chartered bank or a Quebec savings bank; or

(B) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of $5,000,000;

provided that the letter of guarantee certifies that the bank or trust company:

(C) holds on deposit for the account of the Member cash in the full amount of the aggregate exercise value of the put and that such amount will be paid to the clearing corporation against delivery of the underlying interest covered by the put; or

(D) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put against delivery of the underlying interest covered by the put;

and further provided that the Member has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

(f) **Option spreads and combinations**

(i) **Call spreads and put spreads**

Where a Member account contains one of the following spread pairings:

- long call option and short call option; or
- long put option and short put option;

the minimum capital required for the spread pairing shall be shall be the lesser of:

(A) the capital required on the short option pursuant to sub-paragraph 100.10(d)(i); or

(B) the spread loss amount, if any, that would result if both options were exercised.

(ii) **Short call – short put spreads**

Where a call option is carried short for a Member's account and the account is also short a put option on the same number of units of trading on the same underlying interest, the minimum capital required shall be the greater of:

(A) the greater of:

(I) the capital required on the call option position; or

(II) the capital required on the put option position; ~~plus~~

~~(B) any in-the-money amount associated with the position in (A) having the lower capital requirement.~~

and;

(B) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.[27]

(iii) **Long call – long put**

Where a call option is carried long for a Member's account and the account is also long a put option on the same number of units of trading on the same underlying interest, the minimum capital required shall be:

(A) 100% of the market value of the call option; plus

(B) 100% of the market value of the put option; minus

(C) the greater of:

(I) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option; or

(II) 50% of the total of the amount by which each option is in-the-money.

(iv) **Long call – short call – long put**

Where a call option is carried long for a Member's account and the account is also short a call option and long a put option on the same number of units of trading on the same underlying interest, the minimum capital required shall be:

(A) 100% of the market value of the long call option; plus

(B) 100% of the market value of the long put option; minus

(C) 100% of the market value of the short call option; plus

(D) the greater of:

(I) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; and

(II) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in (D) is negative, this amount may be applied against the capital charge.

(v) **Short call – long warrant**

Where a call option is carried short for a Member's account and the account is also long a warrant on the same number of units of trading on the same underlying interest, the minimum capital required shall be the sum of:

[27] There was an anomaly in the previous requirement for spreads where both options were in-the-money and the calculated capital requirement for each individual short option was the same. The amended requirement assumes both options will be exercised if they are in-the-money and determines a capital requirement in this instance based on the difference between the exercise values of both options.

(A) the lesser of:

(I) the capital required for the call option pursuant to sub-paragraph 100.10(d)(i); or

(II) the spread loss amount, if any, that would result if both the option and the warrant were exercised.

and;

(B) the excess of the market value of the warrant over the in-the-money value of the warrant multiplied by 25%; and

(C) the in-the-money value of the warrant, multiplied by:

(I) 50%, where the expiration date of the warrant is 9 months or more away, or

(II) 100%, where the expiration date of the warrant is fewer than 9 months away.

The market value of any premium credit carried on the short call option may be used to reduce the capital required on the long warrants, but cannot reduce the capital required to less than zero.

(g) **Option and security combinations**

(i) **Short call – long underlying (or convertible) combination**

Where, in the case of equity or equity participation unit options, a call option is carried short in a Member's account and the account is also long an equivalent position in the underlying interest or, in the case of equity options in a security readily convertible or exchangeable (without restrictions other than the payment of consideration and within a reasonable time provided such time shall be prior to the expiration of the call option) into the underlying interest, or in the case of equity participation unit options in securities readily exchangeable into the underlying interest, the minimum capital required shall be the sum of:

~~(A) the capital required on the long security position, in the case of equity or equity participation unit options, based on the market price of such security or the exercise price of the short call, whichever is lower; and~~

~~(B) the amount, if applicable and if any, by which the subscription or conversion price of the long security exceeds the exercise price of the short call, multiplied by the unit of trading.~~

(A) the lesser of:

(I) the normal capital required on the underlying interest; and

(II) any excess of the aggregate exercise value of the call options over the normal loan value of the underlying interest;

and;

(B) where a convertible security or exchangeable security is held, the amount of the conversion loss as defined in Regulation 100.4H.[28]

The market value of any premium credit carried on the short call may be used to reduce the capital required on the long security, but cannot reduce the capital required to less than zero.

(ii) **Short put – Short underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried short in a Member's account and the account is also short an equivalent position in the underlying

[28] The previous approach was to require capital based on 25% of the lesser of: (i) the market value of the stock, and (ii) the exercise value of the call options. Under this approach, where the options are either at-the-money or in-the-money, the capital required was 25% of the exercise value of the call options no matter how in-the-money the call options were. This lead to significantly higher than necessary capital requirements for offsets involving options that were deep in-the-money (i.e., where the security market value is at least 25% above the exercise value of the call options). The amended requirement limits the capital requirement for an offset involving deep in-the-money call options to the maximum loss that would be experienced with a 25% price drop.

interest, ~~the capital required shall be the capital required on the short security position based on the market price of such security.~~the minimum capital required shall be the lesser of:

(A) the normal capital required on the underlying interest; and

(B) any excess of the normal capital required on the underlying interest over the in-the-money value, if any, of the put options.[29]

The market value on any premium credit carried on the short put may be used to reduce the capital required on the short security, but cannot reduce the capital required to less than zero.

(iii) **Long call – short underlying combination**

Where, in the case of equity or equity participation unit options, a call option is carried long in a Member's account and the account is also short an equivalent position in the underlying interest, the minimum capital required shall be the sum of:

(A) 100% of the market value of the long call option; plus

(B) the lesser of:

(I) any out-of-the-money value associated with the call option; or

(II) the normal capital required on the underlying interest.

Where the call option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.

(iv) **Long put – long underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried long in a Member's account and the account is also long an equivalent position in the underlying interest, the minimum capital required shall be the lesser of:

~~(A) 100% of the market value of the long put option; plus~~

~~(B) the lesser of:~~

~~(I) any out-of-the-money value associated with the put option; or~~

~~(II) the capital requirement on the long security position.~~

(A) the normal capital required on the underlying interest; and

(B) the excess of the combined market value of the underlying interest and the put option over the aggregate exercise value of the put option.[30]

Where the put option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.

(v) **Conversion or long tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried long in a Member's account and the account is also long an equivalent position in put options and short an equivalent position in call options, the minimum capital required shall be:

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[29] The previous approach was to require capital based on 25% of the greater of: (i) the market value of the stock, and (ii) the exercise value of the put option. Under this approach where the option is either at-the-money or in-the-money, the capital required was the exercise value of the put option no matter how in-the-money the put option was. This lead to significantly higher than necessary capital requirements for hedges involving options that were deep in-the-money (i.e., where the security market value is at least 25% below the exercise value of the put option). The amended requirement limits the capital requirement for an offset involving a deep in-the-money put option to the maximum loss that would be experienced with a 25% price increase.

[30] The previous approach gave no loan value to the intrinsic value of the put option. As a result, in situations where the put option was in-the-money, the net loan value granted to the combined long stock/long put options positions might have been significantly less than the exercise value of the put option. The amended approach effectively only requires capital on an offset involving an in-the-money put option to the extent of any time value.

(A) 100% of the market value of the long put options; minus

(B) 100% of the market value of the short call options; plus

(C) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, ~~any out-of-the-money value associated with the put options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the call options.

~~Where the put options are in-the-money, this in-the-money value may be applied against the capital required.~~[31]

(vi) **Reconversion or short tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried short in a Member's account and the account is also long an equivalent position in call options and short an equivalent position in put options, the minimum capital required shall be:

(A) 100% of the market value of the long call options; minus

(B) 100% of the market value of the short put options; plus

(C) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), ~~any out-of-the-money value associated with the call options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the put options.

~~Where the call options are in-the-money, this in-the-money value may be applied against the capital required.~~[32]

(h) **Offset combinations involving index products**

(i) **Option spreads**

In addition to the option spreads permitted in Regulation 100.10(f), the following additional option spread strategies are available for positions in index options and index participation unit options:

(A) **Box spread**

Where a Member account contains one of the following box spread combinations:

- box spread involving index options; or
- box spread involving index participation unit options;

such that a Member holds a long and short call option and a long and short put option with the same expiry month and where the long call option and short put option, and short call option and long put option have the same strike price, the minimum capital required shall be the lesser of:

(I) the difference, plus or minus, between the aggregate exercise value of the long call options and the aggregate exercise value of the long put options; and

(II) the net market value of the options.

(B) **Long butterfly spread**

Where a Member account contains one of the following butterfly spread combinations:

- long butterfly spread involving index options; or
- long butterfly spread involving index participation unit options;

such that a Member holds a short position in two call options (or put options) and the

31 Rewording changes only.
32 Rewording changes only.

short calls (or short puts) are at a middle strike price and are flanked on either side by a long call option (or long put option) having a lower and higher strike price respectively, the minimum capital required shall be the net market value of the short and long call options (or put options).

(C) **Short butterfly spread**

Where a Member account contains one of the following butterfly spread combinations:

- short butterfly spread involving index options; or
- short butterfly spread involving index participation unit options;

such that a Member holds a long position in two call options (or put options) and the long call options (or long put options) are at a middle strike price and are flanked on either side by a short call option (or short put option) having a lower and higher strike price respectively, the minimum capital required shall be the amount, if any, by which the exercise value of the long call options (or long put options) exceeds the exercise value of the short call options (or short put options).

(ii) **Index option and index participation unit option spread combinations**

(A) **Call spread combinations and put spread combinations**

Where a Member account contains one of the following spread combinations:

- long index participation unit call option and short index call option; or
- long index call option and short index participation unit call option; or
- long index participation unit put option and short index put option; or
- long index put option and short index participation unit put option;

and the short option expires on or before the date of expiration of the long option, the minimum capital required for the spread combination shall be the lesser of:

(I) the capital required on the short option pursuant to sub-paragraph 100.10(d)(i); and

(II) the greater of:

(a) spread loss amount, if any, that would result if both options were exercised; and

(b) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(B) **Short call – short put spread combinations**

Where a Member account contains one of the following spread combinations:

- short index participation unit call option and short index put option; or
- short index call option and short index participation unit put option;

the minimum capital required shall be the greatest of:

~~(I) the excess of the aggregate exercise value of the put options over the aggregate exercise value of the call options plus the net market value of the options; plus~~

~~(II) the greater of:~~

~~(a) the capital otherwise required on the short put options; or~~

~~(b) the capital otherwise required on the short call options; plus~~

~~(III) the market value of the short option with the lesser capital required;~~

(I) the greater of:

(a) the capital required on the short call option position; or

(b) the capital required on the short put option position;

and;

(II) the excess of the aggregate exercise value of the short put option over the aggregate exercise value of the short call option;

and;

(III) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

~~but in no case may the capital required be less than the tracking error margin rate multiplied by the market value of the underlying participation units.~~[33]

(iii) **Index option combinations with index baskets and index participation units**

(A) **Short call option combinations with long qualifying index baskets or long index participation units**

Where a Member account contains one of the following option related combinations:

- short index call options and long an equivalent number of qualifying baskets of index securities; or
- short index call options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- short index participation unit call options and long an equivalent number of index participation units;

the minimum capital required shall be the greater of:

(I) the lesser of:

~~(I)~~(a) the normal capital required on the qualifying basket (or participation units); ~~minus~~and

~~(II) the market value of the short call options;~~

(b) any excess of the exercise value of the call options over the normal loan value of the qualifying basket (or participation units);

and

(II) ~~but, in no event shall the capital required be less than~~where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[34]

(B) **Short put option combinations with short qualifying index baskets or short index participation units**

Where a Member account contains one of the following option related combinations:

- short index put options and short an equivalent number of qualifying baskets of index securities; or
- short index put options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or

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33 There was an anomaly in the previous rule for spreads where both options were in-the-money and the calculated capital requirement for each individual short option was the same. The amended requirement assumes both options will be exercised if they are in-the-money and determines a capital requirement in this instance based on the difference between the exercise values of both options.

34 The previous approach was to require capital based on the floating margin rate multiplied by the market value of the index basket or index participation unit. The amended requirement limits the margin requirement for an offset involving deep in-the-money call options to the maximum loss that would be experienced with a price drop equal to the floating margin rate percentage.

- short index participation unit put options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of index participation units;

the minimum capital required shall be the greater of:

(I) the lesser of:

~~(I) the normal capital required on the qualifying basket of index securities; minus~~

~~(II) the market value of the short put options;~~

(a) the normal capital required on the qualifying basket (or participation units); and

(b) any excess of the normal credit required on the underlying interest over the exercise value of the put options.

(II) ~~but, in no event shall the capital required be less than~~where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[35]

(C) **Long call option combinations with short qualifying index baskets or short index participation units**

Where a Member account contains one of the following option related combinations:

- long index call options and short an equivalent number of qualifying baskets of index securities; or
- long index call options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of index participation units;

the minimum capital required shall be the sum of:

(I) 100% of the market value of the call options, and

(II) the greater of:

(a) the lesser of:

(i) the aggregate exercise value of the call options less the market value of the qualifying basket (or participation units); and

(ii) the normal capital required on the qualifying basket (or participation units);

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(D) **Long put option combinations with long qualifying index baskets or long index participation units**

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[35] The previous approach was to require capital based on the floating margin rate multiplied by the market value of the index basket or index participation unit. The amended requirement limits the capital requirement for an offset involving a deep in-the-money put to the maximum loss that would be experienced with a price increase equal to the floating margin rate percentage.

Where a Member account contains one of the following option related combinations:

- long index put options and long an equivalent number of qualifying baskets of index securities; or
- long index put options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- long index participation unit put options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- long index participation unit put options and long an equivalent number of index participation units;

the minimum capital required shall be the greater of:

~~(I) 100% of the market value of the long put options; plus~~

~~(II) the lesser of:~~

~~(a) the normal capital required on the qualifying basket (or participation units); or~~

~~(b) the market value of the qualifying basket (or participation units) less the exercise value of the put options.~~

(I) the lesser of:

(a) the normal capital required on the qualifying basket (or participation units); and

(b) the excess of the combined market value of the qualifying basket (or participation units) and the put option over the aggregate exercise value of the put option;

and;

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[36]

(E) **Conversion or long tripo combinations**

Where a Member account contains one of the following option related combinations:

- long a qualifying basket of index securities, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or
- long index participation units, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to tracking error minimum margin); or
- long a qualifying basket of index securities, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or
- long index participation units, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options;

the minimum capital required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying

[36] The previous approach gave no loan value to the intrinsic value of the put option. As a result, in situations where the put option was in-the-money, the net loan value granted to the combined long stock/long put options positions might have been significantly less than the exercise value of the put option. The amended approach effectively only requires capital on an offset involving an in-the-money put option to the extent of any time value.

basket of index securities, multiplied by the market value of the qualifying basket.

and;

(II) the greater of:

(a) the sum of:

(i) 100% of the market value of the long put options; minus

(ii) 100% of the market value of the short call options; plus

(iii) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, ~~any out-of-the-money value associated with the put options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the call options.

and;

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

~~Where the put options are in the money, this in-the-money value may be applied against the capital required.~~[37]

~~(I) **Long qualifying index basket or long index participation units - long index put options - short index call options**~~

~~Where a Member holds a long basket of equity securities (or index participation units) offset by an equivalent number of long index put options and offset by an equivalent number of short index call options, and where the long put options and the short call options have the same strike price and expiry date, the capital required is equivalent to the capital required for a long qualifying basket (or participation units) offset by an equivalent number of short index futures contracts as set out in Regulation 100.10(h)(v)(A).~~

~~(II) **Long qualifying index basket - long index participation unit put options - short index participation unit call options**~~

~~Where a Member holds a long basket of equity securities offset by an equivalent number of long index participation unit put options and by an equivalent number of short index participation unit call options, and where the long put options and the short call options have the same strike price and expiry date, the capital required is equivalent to the capital required for a long qualifying basket offset by an equivalent number of short index participation units as set out in Regulation 100.10(h)(iv)(A).~~

(F) **Reconversion or short tripo combinations**

Where a Member account contains one of the following option related combinations:

- short a qualifying basket of index securities, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or
- short index participation units, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to tracking error minimum margin); or

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[37] Reflects wording changes made to general long tripo rule set out in Reg. 100.10(g)(v). Replaces previous Regulations 100.10(c)(viii)(F) and 100.10(c)(ix)(H) which only applied to long tripos where the strike price for the call option and the put option are the same.

- short a qualifying basket of index securities, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or
- short index participation units, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options;

the minimum capital required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket.

and;

(II) the greater of:

(a) the sum of:

(i) 100% of the market value of the long call options; minus

(ii) 100% of the market value of the short put options; plus

(iii) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), ~~any out-of-the-money value associated with the call options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the put options.

and;

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

~~Where the call options are in-the-money, this in-the-money value may be applied against the capital required.~~[38]

~~(I) **Short qualifying index basket or short index participation units - long index call options - short index put options**~~

~~Where a Member holds a short basket of equity securities (or index participation units) offset by an equivalent number of long index call options and offset by an equivalent number of short index put options, and where the long call options and short put options have the same strike price and expiry date, the capital required is equivalent to the capital required for a short qualifying basket (or participation units) offset an equivalent number of long index futures contracts as set out in Regulation 100.10(h)(vi)(A) (or Regulation 100.10(h)(vi)(A) in the case of participation units).~~

~~(II) **Short qualifying index basket - long index participation unit call options - short index participation unit put options**~~

~~Where a Member holds a short basket of equity securities offset by an equivalent number of long index participation unit call options and by an equivalent number of short index participation unit put options, and where the long call options and the short put options have the same strike price and expiry date, the capital required shall be equivalent to the capital required where a~~

[38] Reflects wording changes made to general short tripo rule set out in proposed Reg. 100.10(g)(vi). Replaces previous Regulations 100.10(c)(viii)(E) and 100.10(c)(ix)(G) which only applied to short tripos where the strike price for the call option and the put option are the same.

~~Member is short a qualifying basket and long participation units as set out in Regulation 100.10(h)(iv)(B).~~

(G) **Offsets involving options relating to a commitment to purchase index participation units**

(I) **Short index participation unit call options - long qualifying index basket - commitment to purchase index participation units**

Where a Member holds a long position in a qualifying basket of index securities offset by an equivalent number of short index participation unit call options, and has a commitment to purchase a new issue of index participation units pursuant to an underwriting agreement and the underwriting period expires after the expiry date of the short call options, provided the size of the long qualifying basket does not exceed the size of the Member's underwriting commitment to purchase index participation units, the capital required shall be the normal capital required on the long qualifying basket less the market value of the short call options, but in no event shall the capital required be less than zero.

(II) **Long index participation unit put options - long qualifying index basket - commitment to purchase index participation units**

Where a Member holds a long position in a qualifying basket of index securities offset by an equivalent number of long index participation unit put options, and has a commitment to purchase a new issue of index participation units pursuant to an underwriting agreement and the underwriting period expires after the expiry date of the long put options, provided the size of the long qualifying basket does not exceed the size of the Member's underwriting commitment to purchase index participation units, the capital required shall be:

(a) 100% of the market value of the long put options; plus

(b) the lesser of:

(i) the normal capital required on the long qualifying basket, or

(ii) the market value of the qualifying basket less the aggregate exercise value of the put options.

A negative value calculated under (b)(ii) may reduce the capital required on the put options, but in no event shall the capital required be less than zero.

(iv) **Index basket combinations with index participation units**

(A) **Long qualifying index basket offset with short index participation units**

Where a position in a qualifying basket of index securities is carried long in a Member's account and the account is also short an equivalent number of index participation units, the capital required shall be the sum of the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket, multiplied by the market value of the participation units.

(B) **Short qualifying index basket offset with long index participation units**

Where a position in a qualifying basket of index securities is carried short in a Member's account and the account is also long an equivalent number of index participation units, the capital required shall be the sum of:

(I) the tracking error margin rate, unless the short basket is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units;

and;

(II) the calculated incremental basket margin rate for the qualifying basket;

multiplied by the market value of the participation units.

(C) **Offsets involving index participation units relating to a commitment to purchase index participation units**

Short index participation units – long qualifying index basket – commitment to purchase index participation units

Where a Member has a commitment pursuant to an underwriting agreement to purchase a new issue of index participation units, and holds an equivalent long position in a qualifying basket of index securities and also holds an equivalent number of short index participation units, no capital is required, provided the long basket:

(a) is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units; and

(b) does not exceed the Member's underwriting commitment to purchase the participation units.

(v) **Index futures contract combinations with index baskets and index participation units**

Where a Member account contains one of the following futures related combinations:

- long (or short) a qualifying basket of index securities and short (or long) an equivalent number of index futures contracts; or
- long (or short) index participation units and short (or long) an equivalent number of index futures contracts;

the capital required shall be the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket (not applicable if hedging with participation units), multiplied by the market value of the qualifying basket (or participation units).

(vi) **Index option combinations with index futures contracts**

With respect to index options, index participation units options and index futures contracts held in Member accounts, where, the option contracts and the futures contracts have the same settlement date, or can be settled in either of the two nearest contract months, the option contracts and the futures contracts may be offset as follows:

(A) **Short index call options or short index participation unit call options - long index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- short index call options and long index futures contracts (Note: Subject to tracking error minimum margin); or
- short index participation unit call options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be the greater of:

(I) (a) the capital otherwise required on the futures contracts; less

(b) the aggregate market value of the short call options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(B) **Short index put options or short index participation unit put options - short index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- short index put options and short index futures contracts (Note: Subject to tracking error minimum margin); or

- short index participation unit put options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be the greater of:

(I) (a) the capital otherwise required on the futures contracts, less

(b) the aggregate market value of the short put options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(C) **Long index call options or long index participation unit call options - short index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- long index call options and short index futures contracts (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) Out-of-the-money position

The aggregate exercise value of the long call options less the daily settlement value of the short futures contracts, to a maximum of the capital required on un-hedged futures contracts, plus the aggregate market value of the call options;

(II) In-the-money or at-the-money position

The amount by which the aggregate market value of the call options exceeds the aggregate in-the-money amount of the call options;

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(D) **Long index put options or long index participation unit put options - long index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- long index put options and long index futures contracts (Note: Subject to tracking error minimum margin); or
- long index participation unit put options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) Out-of-the-money position

The daily settlement value of the long futures contracts less the aggregate exercise value of the long put options, to a maximum of the capital required on un-hedged futures contracts, plus the aggregate market value of the put options;

(II) In-the-money or at-the-money option position

The amount by which the aggregate market value of the put options exceeds the aggregate in-the-money amount of the put options;

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(E) **Conversion or long tripo combination involving index options or index participation unit options and index futures contracts**

Where a Member account contains one of the following tripo combinations:

- long index futures contracts and long index put options and short index call options with the same expiry date (Note: Subject to tracking error minimum margin); or
- long index futures contracts and long index participation unit put options and short index participation unit call options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) the greater of the difference, plus or minus, between the daily settlement value of the long futures contracts and the aggregate exercise value of the long put options or the short call options, plus

(II) the aggregate net market value of the put and call options.

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(F) **Reconversion or short tripo combination involving index options or index participation unit options and index futures contracts**

Where a Member account contains one of the following tripo combinations:

- short index futures contracts and long index call options and short index put options with the same expiry date (Note: Subject to tracking error minimum margin); or
- short index futures contracts and long index participation unit call options and short index participation unit put options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) the greater of the difference, plus or minus, between the aggregate exercise value of the long call options or short put options and the daily settlement value of the short futures contracts, plus

(II) the aggregate net market value of the call and put options.

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(G) With respect to the offsets enumerated in clauses (A) to (F), partial offsets are not permitted.

(i) **Cross index offset combinations involving index products**

Offsets involving products based on two different indices may be permitted provided:

(i) both indices qualify as an index as defined in Regulation 100.9(a)(xii);

(ii) there is significant performance correlation between the indices; and

(iii) the Association has made available a published tracking error margin rate for cross index offsets involving the two indices.

Where offsets involving products based on two different indices are permitted the capital requirements set out in Regulation 100.10(h) may be used provided that any capital requirement calculated shall be no less than the published tracking error margin rate for cross index offsets involving the two indices.

(j) **Capital requirements for positions in and offsets involving OCC options**

For Member inventory and other firm accounts, the capital charge for positions in and offsets involving OCC options shall be the same as set out in Regulation 100.10."

PASSED AND ENACTED BY THE Board of Directors this 15th day of April 2003, to be effective on a date to be determined by Association staff.