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By-Laws and Regulations

Amendments to Regulation 100.9 and 100.10 – Recognition of Three Complex Option Offset Strategies and Expansion of the list of Available Option Spreads involving Individual Equities

The Board of Directors of the Association has approved amendments to Regulation 100.9 and 100.10 recognizing the Long Condor Spread, Short Iron Butterfly Spread, and Short Iron Condor Spread, and expanding the list of available options spreads involving individual equities. In addition, the amendments also include certain housekeeping changes intended to clarify and ensure consistency of the capital and margin requirements set out in Regulation 100. The amendments are effective immediately and are enclosed.

Overview and Amendments

The three newly recognized complex option offset strategies can be derived by combining and netting basic spreads, such as the Box Spread and Butterfly Spread, or Call Spreads and Put Spreads. However, the application of the previous rules to these complex option spreads, which simply combine the margin requirements of each piece of the strategy, resulted in excess conservatism and margin requirements in relation to the risk of the overall position. Moreover, excess conservatism was also found in the previous rules that limited the application of the Box Spread and Butterfly Spreads to index products.

In summary, the amendments:

- Formally recognize the Long Condor Spread, Short Iron Butterfly Spread, and Short Iron Condor Spread, and require minimum capital and margin that properly reflect the risks relating to these strategies.
- Expand the list of available option spreads involving individual equities by removing the previous restriction that limited the application of the Box Spread and Butterfly Spreads to index products only.

- Amend the wording of certain existing spreads to make clear their applicability to the “same underlying interest”, as well as any restrictions regarding option expiry times.
- Amend the capital and margin requirements for the Short Butterfly Spread, allowing the proceeds from the sale of the short options to be used to reduce the minimum capital or margin required. This is in keeping with the requirements for other option spreads that have a similar risk profile.

Kenneth A. Nason
Association Secretary

INVESTMENT DEALERS ASSOCIATION OF CANADA
REGULATION 100.9 AND 100.10 –
CAPITAL AND MARGIN REQUIREMENTS FOR POSITIONS IN OPTION SPREADS AND COMBINATIONS

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(f)(i) is amended by adding the following words immediately following the words “one of the following spread pairings”:

“for an equivalent number of trading units on the same underlying interest.”

2. Regulation 100.9(f) is amended by adding the following:

“(vi) **Box spread**

Where a customer account contains a box spread combination on the same underlying interest with all options expiring at the same time, such that a customer holds a long and short call option and a long and short put option 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.

(vii) **Long butterfly spread**

Where a customer account contains a long butterfly spread combination on the same underlying interest with all options expiring at the same time, 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, and the interval between the strike prices is equal, the minimum margin required shall be the net market value of the short and long call options (or put options).

(viii) **Short butterfly spread**

Where a customer account contains a short butterfly spread combination on the same underlying interest with all options expiring at the same time, 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, and the interval between the strike prices is equal, 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). The

market value of any premium credit carried on the short options may be used to reduce the margin required.

(ix) **Long Condor Spread**

Where a customer account contains a long condor spread combination on the same underlying interest with all options expiring at the same time, such that a customer holds four separate options series wherein the strike prices of the options are in ascending order and the interval between the strike prices is equal, comprising a short position in two call options (or put options) and the short call options (or short put options) 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).

(x) **Short Iron Butterfly Spread**

Where a customer account contains a short iron butterfly spread combination on the same underlying interest with all options expiring at the same time, such that a customer holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option with the same strike price and the short options are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum margin required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum margin required.

(xi) **Short Iron Condor Spread**

Where a customer account contains a short iron condor spread combination on the same underlying interest with all options expiring at the same time, such that a customer holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option and the short options are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum margin required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum margin required.”

3. Regulation 100.9(h)(i) is repealed and section (i) will now commence at the heading “Index option and index participation unit option spread combinations” with the numbering altered thereafter in sequence.

4. Regulation 100.10(f)(i) is amended by adding the following words immediately following the words “one of the following spread pairings”:

“for an equivalent number of trading units on the same underlying interest.”

5. Regulation 100.10(f) is amended by adding the following:

“(vi) **Box spread**

Where a Member account contains a box spread combination on the same underlying interest with all options expiring at the same time, such that a Member holds a long and short call option and a long and short put option 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.

(vii) **Long butterfly spread**

Where a Member account contains a long butterfly spread combination on the same underlying interest with all options expiring at the same time, such that a Member 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, and the interval between the strike prices is equal, the minimum capital required shall be the net market value of the short and long call options (or put options).

(viii) **Short butterfly spread**

Where a Member account contains a short butterfly spread combination on the same underlying interest with all options expiring at the same time, 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, and the interval between the strike prices is equal, 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). The market value of any premium credit carried on the short options may be used to reduce the capital required.

(ix) **Long Condor Spread**

Where a Member account contains a long condor spread combination on the same underlying interest with all options expiring at the same time, such that a Member holds four separate options series wherein the strike prices of the options are in ascending order and the interval between the strike prices is equal, comprising a short position in two call options (or put options) and the short call options (or short put options) 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).

(x) **Short Iron Butterfly Spread**

Where a Member account contains a short iron butterfly spread combination on the same underlying interest with all options expiring at the same time, such that a Member holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option with the

same strike price and the short options are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum capital required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum capital required.

(xi) **Short Iron Condor Spread**

Where a Member account contains a short iron condor spread combination on the same underlying interest with all options expiring at the same time, such that a Member holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option and the short options are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum capital required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum margin required.”

6. Regulation 100.10(h)(i) is repealed and section (i) will now commence at the heading “Index option and index participation unit option spread combinations” with the numbering altered thereafter in sequence.

BE IT RESOLVED THAT the Board of Directors adopts, on this 27th day of September 2006, the English and French versions of these amendments. The Board of Directors also authorizes the Association Staff to make the minor changes that shall be required from time to time by the securities administrators with jurisdiction. These amendments shall take effect on the date determined by the Association Staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
REGULATION 100.9 AND 100.10 –
CAPITAL AND MARGIN REQUIREMENTS FOR POSITIONS IN OPTION SPREADS AND
COMBINATIONS

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Regulation 100.9(f)(i) – Amendment #1

(f) Option spreads and combinations

(i) Call spreads and put spreads

Where a customer account contains one of the following spread pairings for an equivalent number of trading units on the same underlying interest:

- 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.

Regulation 100.9(f)(vi) – (xi) – Amendment #2

(vi) Box spread

Where a customer account contains a box spread combination on the same underlying interest with all options expiring at the same time,

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such that a customer holds a long and short call option and a long and short put option 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.

(vii) Long butterfly spread

Where a customer account contains a long butterfly spread combination on the same underlying interest with all options expiring at the same time,

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, and the interval between the strike prices is equal, the minimum margin required shall be the net market value of the short and long call options (or put options).

(viii) **Short butterfly spread**

Where a customer account contains a short butterfly spread combination on the same underlying interest with all options expiring at the same time,

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, and the interval between the strike prices is equal, 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). The market value of any premium credit carried on the short options may be used to reduce the margin required.

(ix) **Long Condor Spread**

Where a customer account contains a long condor spread combination on the same underlying interest with all options expiring at the same time, such that a customer holds four separate options series wherein the strike prices of the options are in ascending order and the interval between the strike prices is equal, comprising a short position in two call options (or put options) and the short call options (or short put options) 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).

(x) **Short Iron Butterfly Spread**

Where a customer account contains a short iron butterfly spread combination on the same underlying interest with all options expiring at the same time, such that a customer holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option with the same strike price and the short options are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum margin required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum margin required.

(xi) **Short Iron Condor Spread**

Where a customer account contains a short iron condor spread combination on the same underlying interest with all options expiring at the same time, such that a customer holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option and the short options

are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum margin required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum margin required.

Regulation 100.9(h)(i) – Amendment #3

(h) Offset combinations involving index products

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(iii) Index option and index participation unit option spread combinations

Regulation 100.10(f)(i) – Amendment #4

(f) Option spreads and combinations

(i) Call spreads and put spreads

Where a Member account contains one of the following spread pairings for an equivalent number of trading units on the same underlying interest:

- 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 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.

Regulation 100.10(f)(vi) – (xi) – Amendment #5

(vi) Box spread

Where a Member account contains a box spread combination on the same underlying interest with all options expiring at the same time,

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such that a Member holds a long and short call option and a long and short put option 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.

(vii) **Long butterfly spread**

Where a Member account contains a long butterfly spread combination on the same underlying interest with all options expiring at the same time,

such that a Member 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, and the interval between the strike prices is equal, the minimum capital required shall be the net market value of the short and long call options (or put options).

(viii) **Short butterfly spread**

Where a Member account contains a short butterfly spread combination on the same underlying interest with all options expiring at the same time,

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, and the interval between the strike prices is equal, 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). The market value of any premium credit carried on the short options may be used to reduce the capital required.

(ix) **Long Condor Spread**

Where a Member account contains a long condor spread combination on the same underlying interest with all options expiring at the same time, such that a Member holds four separate options series wherein the strike prices of the options are in ascending order and the interval between the strike prices is equal, comprising a short position in two call options (or put options) and the short call options (or short put options) 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).

(x) **Short Iron Butterfly Spread**

Where a Member account contains a short iron butterfly spread combination on the same underlying interest with all options expiring at the same time, such that a Member holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option with the same strike price and the short options are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum capital required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum capital required.

(xi) **Short Iron Condor Spread**

Where a Member account contains a short iron condor spread combination on the same underlying interest with all options expiring at the same time, such that a Member holds four separate options series wherein the strike prices of the options are in ascending order, and the interval between the strike prices is equal, comprising short positions in a call option and a put option and the short options are flanked on either side by a long put option and a long call option having a lower and higher strike price respectively, the minimum capital required shall equal the strike price interval multiplied by the unit of trading. The market value of any premium credit carried on the short options may be used to reduce the minimum capital required.

Regulation 100.10(h)(i) – Amendment #6

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

(iii) Index option and index participation unit option spread combinations