



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

Contact:
Jane Tan
Information Analyst
(416) 943-6979

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By-laws and Regulations

Capital and Margin Requirements for Long Options – Regulation 100.9 and Regulation 100.10

The Board of Directors of the Association has approved amendments to Regulation 100.9 and 100.10 with respect to the capital and margin requirements for unhedged long option positions. The amendments, a copy of which is enclosed as attachment #1, are effective January 1, 2005.

The previous requirements for unhedged long option positions in Member firm accounts granted regulatory value to the extent the option was “in-the-money”, but did not give the same relief to unhedged long option positions in customer accounts.

The amended requirements grant the same margin treatment to unhedged long option positions in customer and Member firm accounts and also give regulatory value to the time value component of the market value of long dated options.

Kenneth A. Nason
Association Secretary

INVESTMENT DEALERS ASSOCIATION OF CANADA
AMENDMENTS TO CAPITAL AND MARGIN REQUIREMENTS FOR POSITIONS IN
AND OFFSETS INVOLVING LONG OPTIONS – REGULATIONS 100.9 AND 100.10

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(a) is amended by adding the defined term after paragraph 100.9(a)(xxiv):
“(xxv) the term “time value” means any excess of the market value of the option over the in-the-money value of the option.”
2. Regulation 100.9(a) is amended by renumbering paragraphs 100.9(a)(xxv) through 100.9(a)(xxvii) to paragraphs 100.9(a)(xxvi) through 100.9(a)(xxviii).
3. Regulation 100.9(c)(i) is repealed and replaced as follows:
“(i) Subject to sub paragraph (ii), the margin requirement for long options shall be the sum of:
(A) where the period to expiry is greater or equal to 9 months, 50% of the option’s time value, 100% of the option’s time value otherwise; and
(B) the lesser of:
(I) the normal margin required for the underlying securities; and
(II) the option’s in-the-money amount, if any.”
4. Regulation 100.9(f)(iii) is repealed and replaced as follows:
“(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 the lesser of:
(A) the sum of:
(I) the margin required for the long call option position; and
(II) the margin required for the long put option position;
or
(B) the sum of:
(I) 100% of the market value of the long call option; and
(II) 100% of the market value of the long put option; minus
(III) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option;”
5. Regulation 100.10(c)(i) is repealed and replaced as follows:
“(i) For Member accounts, subject to sub-paragraph (ii), the capital requirement for long options shall be the sum of:
(A) where the period to expiry is greater or equal to 9 months, 50% of the option’s

time value, 100% of the option's time value otherwise; and

(B) the lesser of:

(I) the normal capital required for the underlying securities; and

(II) the option's in-the-money amount, if any."

6. Regulation 100.10(f)(iii) is repealed and replaced as follows:

“(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 the lesser of:

(A) the sum of:

(I) the capital required for the long call option position; and

(II) the capital required for the long put option position;

or

(B) the sum of:

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

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

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

PASSED AND ENACTED BY THE Board of Directors this 13th day of June 2004, to be effective on a date to be determined by Association staff.