EXAMPLE

OTC Option on Government of Canada Bonds

Member's inventory is long and client is short 100 calls on Government of Canada bonds with a strike price of 96. Current bond price is 95.18 and the current premium on the option is $0.89 per bond. Underlying interest is $100,000 of face value.

(A) <u>Inventory Margin</u>

100% current option value $0.89 x $1,000 x 100 contracts	=	$ 89,000

The Member must provide inventory margin of $89,000

(B) <u>Client Margin (other than AI)</u>

1.	100% of premium			$ 89,000
2.	plus:	margin rate on underlying security x market value of security		
		4%* x $1,000 x 100 contracts x 95.18	=	380,720
	*Assumes the underlying bond has a time to maturity of at least 10 years.			
3.	less: any out of the money amount [(95.18 - 96.00) x ($1,000 x 100 contracts)]		=	(82,000)
	Client required to margin			$387,720

(C) <u>Calculation of Minimum Margin</u>

100% of current premium	$ 89,000
plus 25% of (2) above	95,180
	$184,180