13.1.4 IDA Regulation 100.8 - Commodity Futures Contracts and Futures Contract Options

INVESTMENT DEALERS ASSOCIATION OF CANADA –

REGULATION 100.8 - COMMODITY FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS

I Overview

A Current Rules

Current Regulation 100.8 sets our both general and specific product capital and margin requirements for commodity futures contracts and futures contract options.

B The Issue

The current regulation contains a number of redundant sections that detail the margin treatment of index and commodity derivative products that no longer exist. The proposed amendments seek to repeal these redundant sections while retaining the general capital and margin requirements for commodity futures and futures contract options positions.

C Objective(s)

The objectives of these housekeeping amendments are to repeal redundant product specific sections and make other housekeeping changes to Regulation 100.8. The current general capital and margin requirements for commodity futures and futures contract options positions will be retained.

D Effect of Proposed Rules

The proposed amendments are housekeeping in nature and will have no impact on market structure, competition, costs of compliance and other rules.

II Detailed Analysis

A Present Rules, Relevant History and Proposed Policy

A detailed review of present rules and relevant history was not considered necessary due to the housekeeping nature of the proposed amendments. The proposed amendments, included as Attachment #1, seek to repeal redundant sections and make housekeeping changes.

B Issues and Alternatives Considered

No other alternatives were considered.

C Comparison with Similar Provisions

A comparison with similar regulations in the United Kingdom and the United States was not considered necessary due to the housekeeping nature of the proposed amendments.

D Systems Impact of Rule

It is believed that the proposed amendments will have no impact in terms of capital market structure, member versus non-member level playing field, competition generally, costs of compliance and conformity with other rules.
The Bourse de Montréal is also in the process of passing this amendment. Implementation of this amendment will therefore take place once both the Association and the Bourse de Montréal have received approval to do so from their respective recognizing regulators.

E Best Interests of the Capital Markets

The Board has determined that this housekeeping rule is not detrimental to the best interests of the capital markets.

F Public Interest Objective

The amendments are believed to be housekeeping in nature as they seek to repeal redundant sections and clarify existing requirements and, as such, will not impact the public.

III Commentary

A Filing in Other Jurisdictions

These proposed amendments will be filed for approval in Alberta, British Columbia, Ontario and Quebec and will be filed for information in Manitoba, Nova Scotia and Saskatchewan.

B Effectiveness

As indicated in the previous sections, the objective of the proposal is to maintain the current margin requirements for commodity futures and futures contract options, repeal redundant sections and make minor housekeeping wording changes to improve the clarity of the regulation.

C Process

These proposed amendments have been developed and recommended for approval by the FAS Capital Formula Subcommittee and have been recommended for approval by the FAS Executive Committee and the Financial Administrators Section.

IV Sources

References:

- IDA Regulation 100.8

V OSC Requirement to Publish for Comment

The Association has determined that the entry into force of the proposed amendments is housekeeping in nature. As a result, a determination has been made that these proposed rule amendments need not be published for comment.

Questions may be referred to:

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Attachment #1

INVESTMENT DEALERS ASSOCIATION OF CANADA

REGULATION 100.8 - COMMODITY FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS

BOARD RESOLUTION

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 section 100.8 is amended by repealing paragraphs 100.8(e) and 100.8(g) to (m).

2. Regulation paragraph 100.8(f) is amended by:

   a. Renumbering the paragraph 100.8(e); and

   b. Deleting the following text at the beginning of the paragraph

      “An amount shall be deducted equal to the greater of the margin required on either the long side or the short side only with respect to the following inter-commodity spreads held by the Member firm in firm accounts (A) Treasury Bill futures contracts traded on The Toronto Futures Exchange and 90 day U.S. Treasury Bill futures contracts; or (B) long Canada contracts traded on The Toronto Futures Exchange and U.S. Treasury Bill futures contracts.”

      And replacing it with the following text:

      “Where a Member’s account holds inter-commodity spreads in Government of Canada bond futures contracts and U.S. treasury bond futures contracts traded on recognized exchanges, the margin requirement shall be greater of the margin required on either the long side or the short side only.”

3. Regulation paragraph 100.8(n) is amended by replacing the words “Board of Directors” after the word “Regulations” with “Association” and by renumbering the paragraph 100.8(f).

PASSED AND ENACTED BY THE Board of Directors this 13th day of April 2005, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA

REGULATION 100.8 - COMMODITY FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS

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100.8. **Commodity Futures Contracts and Futures Contract Options**

"Commodity" and **"futures contract"** have the meanings given to such terms under Regulation 1800.1 and **"commodity contract"** means a contract as defined under that Regulation.

Commodity futures contracts and futures contract options (other than purchases of futures contract options which shall be for cash) shall be margined as follows:

(a) Positions of Members and customers shall be marked to market and margined daily at the greatest of:

(i) the rate required by the commodity futures exchange on which the contract is entered into or its clearing house; or

(ii) the rate required by the Member's clearing broker;

provided that where a Member or a customer owns a commodity and such ownership is evidenced by warehouse receipts or comparable documentation and such Member or customer also has a short position in commodity futures contracts in the same commodity, the two positions may be offset and the required margin shall be computed with respect to the net long or net short position only.

(b) In the case of a commodity futures exchange or its clearing house that prescribes margin requirements based on initial and maintenance rates, initial margin shall be required at the time the contract is entered into in an amount not less than the prescribed initial rate. When subsequent adverse price movements in the value of the contracts reduce the margin on deposit to an amount below the maintenance level, a further amount to restore the margin on deposit to the initial rate shall be required. The Member may, in addition, require such further margin or deposit against liability as it may consider necessary as a result of fluctuations in market prices from time to time.

(c) Every Member shall require from each of its customers for whom trades are effected through an omnibus account not less than the amount of margin that would be required from such customers if their trades were effected through fully disclosed accounts.

(d) Spread margins may be applicable to an account whenever the account is in a spread position. Every Member shall designate such spread positions on its margin records.

~~(e) For the purpose of determining deductions to net allowable assets in calculating risk adjusted capital under Form 1,~~

~~(i) margin shall be deducted for each open futures contract and each outstanding short position in a futures contract option held in a firm account of the Member in the minimum amount required for such futures contract or position under the Regulations. Where the minimum margin requirements of a clearing house or commodity futures exchange are based on an initial margin rate and a maintenance level, the Member's deduction for principal positions shall be based on the initial margin rate;~~

~~(ii) a margin deficiency in respect of an account maintained with or by a Member, other than a firm account but including omnibus accounts, means for each open futures contract or outstanding short position in a futures contract option the amount by which the margin on deposit in the account is at any time less than:~~

~~(A) the maintenance level prescribed by the commodity futures exchange on which the contract is entered or its clearing house,~~

~~(B) where no maintenance level is so prescribed, the minimum margin prescribed by such exchange or clearing house, or~~

~~(C) such greater amount of margin as may be prescribed under the By-laws and Regulations;~~

~~(iii) positions in futures contracts and short positions in futures contract options held in various firm accounts may be treated as one with respect to each type of position.~~

~~(iv) (A) The following amounts shall be deducted with respect to each outstanding TFE futures contract held by the Member in firm accounts:~~

~~Contract~~	~~Open Contracts That Are Not Spread~~	~~Spreads in the Same Underlying Interest~~
~~TSE 300 Composite Index Contract~~	~~$1,000 per contract~~	~~$ nil per contract~~
~~TSE 100 Index Contract~~	~~Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~0.40% multiplied by the future settlement value of the contract~~
~~Toronto 35 Index Contract~~	~~Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~0.40% multiplied by the future settlement value of the contract~~
~~TSE 300 Composite Spot Index Contract~~	~~$1,000 per contract~~	~~N/A~~
~~Toronto 35 Spot Index Contract~~	~~Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~N/A~~

The deductions specified in the above chart apply to both initial and maintenance margins, unless otherwise indicated.

~~Spread~~	~~Capital~~
~~TSE 100 Index/Toronto 35 Index Futures Contracts~~	~~2.00% multiplied by the future settlement value of the contract, where the settlement value of each contract position in the spread is equal.~~

~~(v) Where a Member has an open TFE futures contract or TFE security that is covered by securities pursuant to a Member's covering transaction, the Member's deduction from net allowable assets (Form 1) shall be based on the net position or as otherwise determined by the Vice-President, Financial Compliance.~~

~~(vi) For each specialist associated with the Member, an amount shall be deducted by the Member that is equal to the lesser of~~

~~(A) $25,000, or~~

~~(B) $10,000 for each TFE Option for which the responsibilities of a specialist appointment have been allocated to that specialist.~~

~~(vii) The charge to capital with respect to a TFE option and a TFE option-related position held by a Member, including firm accounts and such other accounts as the Vice-President, Financial Compliance may require, shall be the same as the margin requirements for customers and non-customers, with the following exceptions:~~

~~(A) there is no minimum capital requirement per TFE option;~~

~~(B) in the treatment of spreads, the long options position may expire before the short options position;~~

~~(C) for firm accounts and such other accounts as the Vice-President, Financial Compliance may require, the charge against capital for TFE silver option positions:~~

~~1. a long silver call option that has a premium of $1.00 or more and that is not used to offset capital required on any other position shall be the market value of the long call, less 50% of the excess of the market value of the underlying silver certificates over the exercise price of the long call; and~~

~~2. a long silver put option that has a premium of $1.00 or more and that is not used to offset capital required on any other position shall be the market value of the long put, less 50% of~~

~~the excess of the exercise price of the long put over the market value of the silver certificates;~~

~~(D) where a short position in silver certificates is offset by a long silver call option, the charge to capital for firm accounts and such other accounts as the Vice-President, Financial Compliance may require shall be 100% of the market value of the long call plus the lesser of,~~

~~(a) 15% of the market value of the short position in the silver certificates; or~~

~~(b) the excess of the exercise price of the long call over the market price of the silver certificates, multiplied by the unit of trading;~~

~~the excess of the market price of the silver certificates over the exercise price of the long call, multiplied by the unit of trading, may be applied against the capital charge on the long Call, but cannot reduce the capital required on the long Call to less than zero;~~

~~(E) where a long position in silver certificates is offset by a long silver put option, the charge to capital for firm accounts and such other accounts as the Vice-President, Financial Compliance may require shall be 100% of the market value of the long put plus the lesser of,~~

~~(a) 15% of the market value of the long position in the silver certificates; or~~

~~(b) the excess of the market price of the silver certificates over the exercise price of the long put, multiplied by the unit of trading;~~

~~the excess of the exercise price of the long put over the market price of the silver certificates, multiplied by the unit of trading, may be applied against the capital charge on the long put, but cannot reduce the capital required on the long put to less than zero;~~

~~(F) where a long position in silver certificates is offset by a short silver call option, the charge to capital for firm accounts and such other accounts as the Vice-President, Financial Compliance may require shall be 15% of the market value of the long position in silver certificates, less the market value of the short Call, but in no case less than zero;~~

~~(G) where a short position in silver certificates is offset by a short silver put option, the charge to capital for firm accounts and such other accounts as the Vice-President, Financial Compliance may require shall be 15% of the market value of the short position in silver certificates, less the market value of the short put, but in no case less than zero;~~

~~(H) where a short position in silver certificates is offset by a long silver call option and a short silver put option, and where the exercise price of the long call is not less than the exercise price of the short put, the charge to capital for firm accounts and such other accounts as the Vice-President, Financial Compliance may require shall be the difference, whether positive or negative, between the exercise value of the long call and the market value of the silver certificates. This requirement must be adjusted by the net market value of the silver option premium positions outstanding~~

~~(I) where a long position in silver certificates is offset by a long silver put option and a short silver call option, and where the exercise price of the long put is not greater than the exercise price of the short call, the charge to capital for firm accounts and such other accounts as the Vice-President, Financial Compliance may require shall be the difference, whether positive or negative, between the market value of the silver certificates and the exercise value of the long put. This requirement must be adjusted by the net market value of the silver option premium positions outstanding;~~

~~(f)~~<u>(e)</u> ~~An amount shall be deducted equal to the greater of the margin required on either the long side or the short side only with respect to the following inter-commodity spreads held by the Member in firm accounts (A) Treasury Bill~~ <u>futures</u> ~~contracts traded on The Toronto Futures Exchange and 90-day U.S. Treasury Bill futures contracts; or (B) long Canada contracts traded on The Toronto Futures Exchange and U.S. Treasury Bond futures contracts.~~<u>Where a Member's account holds inter-commodity spreads in Government of Canada bond futures contracts and US treasury bond futures contracts traded on recognized exchanges, the margin requirement shall be greater of the margin required on either the long side or the short side only.</u>

For this purpose, the foregoing spreads shall be on the basis of $1.00 Canadian for each $1.00 U.S. of the contract size of the relevant futures contracts. With respect to the United States side of the above inter-commodity spreads, such positions must be maintained on a contract market as designated pursuant to the United States *Commodity Exchange Act*.

~~(g) (i) Every Member shall require each person, for whom trades in TFE futures contracts or TFE securities are effected, to deposit and maintain a margin of not less than the following in respect of each contract:~~

~~Contract~~	~~Open Contracts That Are Not Spread~~		~~Spreads in the Same Underlying Interest~~
	~~Speculators~~	~~Hedgers~~	
~~TSE 300 Composite Index Contract~~	~~$1,500 per contract~~	~~$1,000 per contract~~	~~$200 per contract~~
~~Toronto 35 Index Contract~~	~~Initial: Floating margin rate percentage plus 0.5% multiplied by the future settlement value of the contract.~~ ~~Maintenance: Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~0.40% multiplied by the future settlement value of the contract~~
~~TSE 300 Composite Spot Index Contract~~	~~$1,500 per contract~~	~~$1,000 per contract~~	~~N/A~~
~~Toronto 35 Spot Index Contract~~	~~Initial: Floating margin rate percentage plus 0.5% multiplied by the future settlement value of the contract.~~ ~~Maintenance: Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~0.40% multiplied by the future settlement value of the contract~~
~~TSE 100 Index Contract~~	~~Initial: Floating margin rate percentage plus 0.5% multiplied by the future settlement value of the contract.~~ ~~Maintenance: Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~Floating margin rate percentage multiplied by the future settlement value of the contract~~	~~0.40% multiplied by the future settlement value of the contract~~

~~Margins specified in the above chart apply to both initial and maintenance margins unless otherwise indicated.~~

~~Spread~~	~~Margin~~
~~TSE 100 Index/Toronto 35 Index Futures Contracts~~	~~Initial: 2.50% multiplied by the future settlement value of the contract, where the settlement value of each contract position in the spread is equal~~ ~~Maintenance: 2.00% multiplied by the future settlement value of the contract, where the settlement value of each contract position in the spread is equal~~

~~(h) All opening writing transactions for TFE options must be carried in a margin account. For TFE options every Member shall require each writer for whom trades in TFE options are effected to deposit and maintain margin as set out in paragraphs (i), (j), (k), (l) and (m) as follows:~~

~~(A) each TFE option shall be margined separately and any difference between the market price of the underlying interest 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,~~

~~(B). the minimum margin on a silver call option carried short in an account shall be 15% of the market price of the underlying silver certificates plus 100% of the current premium of the short call, reduced by any excess of the exercise price over the current market price of the silver certificates, multiplied by the unit of trading;~~

~~(C) the minimum margin on a silver put option carried short in any account shall be, 15% of the market price of the underlying silver certificates, plus 100% of the current premium of the short silver put option reduced by any excess of the current market price of the silver certificates over the exercise price multiplied by the unit of trading;~~

~~(D) notwithstanding any other provision contained herein, the minimum amount of margin that must be maintained on a silver option carried short in an account shall be 3% of the market price of the underlying silver certificates plus 100% of the current premium of the short option;~~

~~(E) where a silver call option is carried long for a customers account and the account is short a silver call option expiring on or before the expiration date of the long silver call option, and written on the same market value of silver certificates, the margin required on the short silver call option shall be the lesser of~~

~~1. the margin required pursuant to clauses (B) and (D) above, or~~

~~2. the amount, if any by which the exercise price of the long silver call option exceeds the exercise price of the short silver call option multiplied by the unit of trading;~~

~~(F) where a silver put option is carried long for a customer's account and the account is also short a silver put option expiring on or before the expiration date of the long silver put option and written on the same market value of silver certificates, the margin required on the short silver put option shall be the lesser of~~

~~1. the margin required pursuant to clauses (C) and (D) above, or~~

~~2. the amount, if any, by which the exercise price of the short silver put option exceeds the exercise price of the long silver put option, multiplied by the unit of trading;~~

~~(G) where a silver call option is carried short against an existing net long position in silver certificates, the minimum margin required shall be the margin on the long position required pursuant to any direction from time to time prescribed by the Vice-President, Financial Compliance, based on the lesser of the market value of the silver certificates or the exercise price of the short silver call option;~~

~~(H) where a silver put option is carried short for a customer's account and the account is short an equivalent market value of silver certificates, the short silver put option shall be considered fully margined, provided that the short position in silver certificates is fully margined pursuant to any direction from time to time prescribed by the Vice-President, Financial Compliance, based on the greater of the market value of the silver certificates or the exercise price of the short silver put option;~~

~~(I) no margin shall be required in respect of a silver call option carried short that is covered by the deposit of an escrow receipt. The subject matter of the escrow so deposited in respect of the silver call option shall not be deemed to have any value for margin purposes. Evidence of a deposit of the subject matter of the escrow shall be deemed an escrow receipt for the purposes hereof if the agreements required by the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Vice-President, Financial Compliance on request;~~

~~(J) no margin shall be required in respect of a silver call option carried short that is covered by the deposit of a certificate issued by a depository that is approved by the clearing corporation;~~

~~(K) no margin shall be required in respect of a silver put option carried short that is covered by the deposit of an escrow receipt certifying that acceptable government securities are being held by the issuer of the escrow receipt for the account of the customer. The acceptable government securities held on deposit~~

~~1. shall be government securities~~

~~(a) that are acceptable forms of margin for the clearing corporation; and~~

~~(b) that mature within one year of their deposit; and~~

~~2. shall not be deemed to have any value for margin purposes.~~

~~The aggregate exercise value of the short silver put option shall not be greater than the clearing corporation's prescribed percentage of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the subject matter of the escrow shall be deemed an escrow receipt for the purposes hereof if the agreements required by the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Vice-President, Financial Compliance on request. The issuer of the escrow receipt must be a financial institution approved by the clearing corporation;~~

~~(L) no margin shall be required in respect of a short silver put option where the customer has delivered to the Member with which such position is maintained a letter of guarantee, in a form satisfactory to the Vice-President, Financial Compliance, issued by a financial institution that has been authorized by the clearing corporation to issue escrow receipts, provided the letter of guarantee certifies that the financial institution~~

~~1. holds on deposit for the account of the customer cash in the full amount of the aggregate exercise price of the silver put option and that such amount will be paid to the clearing corporation against delivery of the silver certificates covered by the silver put option; or~~

~~2. unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise price of the silver put option against delivery of the silver certificates covered by the silver 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; and~~

~~(M) where a silver call option is carried short in a customer's account and the account is also short a silver put option written on the same market value of silver certificates, the margin required shall be the greater of the margin on the short silver call option position or on the short silver put option position, increased by any unrealized loss on the position having the lesser requirements.~~

~~(i) Where a silver call option is carried short and a silver put option is carried long for a customer account, where the exercise price of the long silver put option is not greater than the exercise price of the short silver call option, and where the account is long an equivalent market value of silver certificates, the minimum margin required is the lesser of~~

~~(A) the margin required on the long silver certificates and short silver call option, plus the margin required on the long silver put option, or~~

~~(B) the margin required on the long silver certificates and long silver put option, plus the margin required on the short silver call option.~~

~~(j) Where a short position in silver certificates is offset by a long silver call option and a short silver put option, and where the exercise price of the long call is not less than the exercise price of the short put, the minimum margin required is the lesser of~~

~~(A) the margin required on the short silver certificates and long silver call option, plus the margin required on the short silver put option, or~~

~~(B) the margin required on the short silver certificates and short silver put option, plus the margin required on the long silver call option.~~

~~(k) Where a short position in silver certificates is offset by a long silver call option, the minimum margin required shall he the total of~~

~~(A) 100% of the acquisition cost of the long silver call option, plus~~

~~(B) 7.5% of the market value of the short silver certificates, plus~~

~~(C) any excess of the exercise price of the long silver call option over the market price of the silver certificates, multiplied by the unit of trading, up to an additional 7.5% of the market value of the short position in the silver certificates.~~

~~(l) Where a long position in silver certificates is offset by a long silver put option, the minimum margin required shall be the total of~~

~~(A) 100% of the acquisition cost of the long silver put option, plus~~

~~(B) 7.5% of the market value of the long position in the silver certificates, plus~~

~~(C) an excess of the market price of the silver certificates over the exercise price of the long silver put options, multiplied by the unit of trading, up to an additional 7.5% of the market value of the long position in the silver certificates.~~

~~(m) A Member may in its discretion permit a person having an established account to trade TFE futures contracts and TFE securities any day without margining each transaction, provided that such transactions which are not closed out on the same day shall be subject to the applicable minimum margin requirements.~~

~~(n)~~(f) Notwithstanding any other provision of the By-laws or Regulations, the ~~Board of Directors~~Association may prescribe with respect to any particular or kind of person or account greater or lesser margin requirements than those prescribed or referred to in this Regulation 100.8.