13.1.2 IDA Regulations 100.9 and 100.10 - Amendments to Recognize Three Complex Option Offset Strategies and to Expand the List of Available Option Spreads Involving Individual Equities

INVESTMENT DEALERS ASSOCIATION OF CANADA – REGULATIONS 100.9 AND 100.10
AMENDMENTS TO RECOGNIZE THREE COMPLEX OPTION OFFSET STRATEGIES
AND TO EXPAND THE LIST OF AVAILABLE OPTION SPREADS INVOLVING INDIVIDUAL EQUITIES

I OVERVIEW

A Current Rules

The current capital and margin rules set out in Regulation 100 do not recognize certain core complex option offset strategies, such as the Long Condor Spread, the Short Iron Butterfly Spread, and the Short Iron Condor Spread.

These complex option offset strategies can be derived by combining and netting basic spreads, such as the Box Spread and Butterfly Spread, which are already defined in Regulation 100.9 (h) and 100.10 (h). However, the current rules restrict these spreads to index products only.

Our review of Regulation 100.9 and 100.10 also identified certain inconsistencies and lack of clarity for the option spreads listed in sections 100.9 (f) and (h) and 100.10 (f) and (h). The current option spread rules are not always clear in defining their applicability to the “same underlying interest”, or in addressing any restrictions regarding option expiry times.

In addition, the current margin and capital requirements for the Short Butterfly Spread (100.9 (h)(C) and 100.10 (h)(C)) does not make an allowance for the proceeds from the sale of the short options to be used to reduce the minimum margin or capital required. However, as noted in this paper, the proposed capital and margin requirements for the Short Iron Butterfly Spread and Short Iron Condor Spread, which share a similar limited risk profile, specifically make this allowance.

B The Issue(s)

The increasing sophistication of option strategies and investors, coupled with the recent recognition of the Long Condor Spread, Short Iron Butterfly Spread, and Short Iron Condor Spread by U.S. regulators, has created a demand for these types of offsets within the Canadian market, and highlighted the inefficiencies in applying the current capital and margin requirements from Regulation 100 to these advanced strategies. It is intended that the formal recognition of these offset strategies by the IDA will reduce existing inefficiencies in the current rules and allow for minimum capital and margin requirements that are reflective of the risks relating to these strategies. The minimum capital and margin requirements for these strategies reflect the potential worst case scenario loss.

Each of the three new complex option offset strategies is considered “market neutral”[1], with a “limited risk / limited reward” profile that could be implemented with either individual equity options or index products. Given that these complex option offset strategies can be derived by combining and netting basic spreads, our assessment of these new strategies necessarily involved a review and reassessment of the option spreads currently recognized by the IDA. As discussed in more detail below, a key issue identified was in regard to the Box Spread and Butterfly Spread, and the current restriction in place limiting their application to index products.

C Objective(s)

The main objective of this set of proposed amendments to Regulation 100 is to expand the number of permitted reduced capital and margin option offset strategies. A second objective is to expand the list of option spreads available for individual equity options by removing the current restriction limiting the Box Spread, Long Butterfly Spread, and Short Butterfly Spread to index products. A third more general objective of this proposal is to clarify and ensure consistency of the capital and margin requirements that are set out in Regulation 100.

D Effect of Proposed Rules

Adoption of the proposed amendments will expand the number of reduced capital and margin option offset strategies as well as the number of option spreads available for individual equity options. These offsets are generally already permitted for use within other regulated markets, most notably the U.S. As a result, it is anticipated that there will be no negative impact of the proposed rules on market structure, competitiveness of Member firms versus non Member firms and costs of compliance.

[1] In this context, market neutral refers to strategies that are neither overtly “Bearish” or “Bullish”, but rather are designed to profit from securities or indices that trade within a defined range.

II DETAILED ANALYSIS

A Present Rules, Relevant History and Proposed Policy

PRESENT RULES AND RELEVANT HISTORY

As previously stated, the current capital and margin rules for option spreads as set out in Regulation 100.9 (f) and (h) and 100.10 (f) and (h), do not recognize the Long Condor Spread, the Short Iron Butterfly Spread, and the Short Iron Condor Spread. As noted above, these complex strategies can be derived by combining and netting basic spreads, such as the Butterfly Spread and Box Spread, or Call Spreads and Put Spreads. However, the application of the current IDA rules to the proposed complex option spreads, which simply combine the margin requirements of each piece of the strategy, results in excess conservatism and margin requirements in relation to the risk of the overall position. Our review indicates that this is particularly true with regard to the Short Iron Butterfly Spread and Short Iron Condor Spread. The Long Condor Spread, although not specifically defined in the Regulations, is properly margined when the margin requirement for each piece of the strategy is combined.

Long Condor Spread

The Long Condor Spread is similar to a Butterfly Spread, except it includes four strike prices instead of three. A Long Condor Spread should result in a net debit being charged to the investor, which also represents the maximum risk of the position. The Long Condor Spread can be derived from the netting of two Long Butterfly Spreads. The existing IDA margin requirement for the two Long Butterfly Spreads, which requires margin totaling the net market value of the short and long call options, is appropriate for the Long Condor Spread. This is in harmony with the recent U.S. amendments which require that the "net debit" be paid in full. Therefore, IDA staff for ease of reference, propose to formally recognize this strategy in the Regulations.

Short Iron Butterfly Spread and Short Iron Condor Spread

The structure and risk parameters for the Short Iron Butterfly and Short Iron Condor Spreads are similar to each other. Both consist of 4 option series (2 puts and 2 calls as exhibited in Figures 1 and 2 below in the sections marked "NET")[2], with exercise prices in ascending order. In effect, the Condor or Butterfly "body" is made up of 2 short options (1 put and 1 call) and is flanked on either side by "wings" made up of 2 long options (1 put and 1 call). The main distinction between the two strategies is that with a Short Iron Butterfly, the 2 short options have the same strike price, whereas with a Short Iron Condor the 2 short options have different strike prices.

Figure 1.

	PUTS			CALLS				
	Feb 45 @.5	Feb 50 @1	Feb 55 @2	Feb 45 @16.5	Feb 50 @12	Feb 55 @8	Feb 60 @6	Feb 65 @5
Short Iron Butterfly								
Long Butterfly					1	-2	1	
Short Box		1	-1		-1	1		
NET		**1**	**-1**			**-1**	**1**	

Figure 2.

	PUTS			CALLS				
	Feb 45 @.5	Feb 50 @1	Feb 55 @2	Feb 45 @16.5	Feb 50 @12	Feb 55 @8	Feb 60 @6	Feb 65 @5
Short Iron Condor								
Long Butterfly					1	-2	1	
Long Butterfly						1	-2	1
Short Box		1	-1		-1	1		
NET		**1**	**-1**				**-1**	**1**

In practice, and as exhibited by the "NET" positions in Figures 1 and 2, both the Short Iron Butterfly Spread and Short Iron Condor Spread can be viewed as the combination of a Bull Put Spread and a Bear Call Spread. In pairing together the Bull Put and Bear Call spreads, the total risk is less than the sum of the risk of both spread positions if they were viewed as "stand-alone spreads". However, under the current IDA rules, both of the underlying spreads are subject to margin and capital requirements. As a result, the IDA initial margin requirement for customer positions results in a "double margin" requirement, even though the maximum loss is restricted to the difference in strike prices on either underlying spread (Bull Put or Bear Call), less the net credit

2 Excerpted from Chicago Board Options Exchange (CBOE) Regulatory Circular RG03-066.

received when the position was initially created. Only one of the underlying spreads would be affected negatively by a sudden movement in the price of the underlying security. In contrast to the current IDA margin requirements, the U.S. regulators' minimum initial and maintenance margin requirement for the Short Iron Butterfly and Short Iron Condor is equal to the strike price interval, less the net credit received, which is the maximum loss.

Applicability to Index products and Individual equity options

The current rules limit the application of the Box Spread and Butterfly Spreads to index products, however this restriction appears excessively conservative and unwarranted given the risk parameters of these option spreads. It should be noted that options on individual equities are American Style, while index options are typically European Style[3]. However, the distinction between American and European Style options does not appear to be a material factor in restricting these option spreads to index products only. IDA Regulations 100.9 (h)(i) and 100.10 (h)(i), regarding the Box Spread, Long Butterfly Spread and Short Butterfly Spread, currently allow these strategies for "index options" and "index participation unit options". It is notable that "index options" are European Style and cash settled, while "index participation units" are American Style and upon exercise are settled by the delivery of the units[4].

Nevertheless, given that individual equities are subject to more volatility than index products, and are American Style (subject to exercise at any time), it is likely that spreads composed of individual equity options will require greater monitoring than those composed of European Style options on an index. However, in regard to customer accounts, these are strategies that should only be used by sophisticated investors, familiar with the risk profile of these strategies as well as with the necessary exit strategies. IDA regulations continue to restrict these spreads to margin accounts, and as such, any alternate risk profile created as a result of an investor unraveling a spread "leg by leg", would be subject to additional margin requirements at the firm's discretion.

PROPOSED RULE AMENDMENT

It is proposed that the Long Condor Spread, Short Iron Butterfly Spread, and Short Iron Condor Spread be included under sections 100.9 (f) and 100.10 (f), "Option spreads and combinations", and therefore be made available for individual equity options as well as index products. In recognizing these complex option offset strategies, it is intended that the minimum capital and margin requirements should reflect the potential worst case scenario loss. In brief, the proposed minimum capital and margin requirements for the three new complex option offset strategies are as follows:

- *Long Condor Spread* – Net market value of the short and long call options (or put options).
- *Short Iron Butterfly Spread* – Strike price interval, less any premium credit carried on the short options.
- *Short Iron Condor Spread* – Strike price interval, less any premium credit carried on the short options.

In addition, it is also proposed that the Box Spread, Long Butterfly Spread, and Short Butterfly Spread, also be included under sections 100.9 (f) and 100.10 (f) and be made available for individual equity options.

Moreover, in order to maintain consistency and clarity for the option spreads listed in sections 100.9 (f) and 100.10 (f), it is proposed to 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. It is also proposed to revise the margin and capital requirements for the short butterfly spread, allowing the proceeds from the sale of the short options to be used to reduce the minimum margin or capital required. This is in keeping with the requirements for the other proposed spreads in section (f) that have a similar risk profile, and is also in harmony with the margin requirement for the Short Butterfly Spread under CBOE 12 (c)(7) and NYSE Rule 431.

B Issues and Alternatives Considered

The only other alternative considered was to the leave the current number of recognized option spreads in Regulation 100 unchanged, and to continue to restrict certain option spreads to index products. This alternative was dismissed as it is apparent that the increasing sophistication of options strategies and investors has clearly created a demand within the Canadian Marketplace for these types of strategies. It is apparent that the application of the current capital and margin requirements to these new complex option offset strategies is overly conservative.

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3 A European Style option can only be exercised at the end of its life, whereas an American Style option can be executed anytime during its life. In addition, European Style index options are cash settled, whereas American Style individual equity option require the delivery of the underlying security upon exercise.

4 See for example the "Reference Manual", Bourse de Montreal Inc., regarding SXO index options and XIU Index Participation Units.

C Comparison with Similar Provisions

In the U.S., in December 2005, The Securities and Exchange Commission (SEC) approved a rule change initiated by the Chicago Board Options Exchange (CBOE) and the New York Stock Exchange (NYSE) regarding the margin requirements for complex option spreads, highlighted by the recognition of three core strategies: Long Condor Spread, Short Iron Butterfly Spread, and Short Iron Condor Spread. In April 2006, the NASD filed amendments to its rules with the SEC, which recognized the three complex options strategies under consideration. In its filing with the SEC, NASD designated the proposed amendments as a "non-controversial" rule change, making the proposal effective at time of filing.[5] The regulations of the CBOE, NYSE, and NASD are consistent in their definitions for these complex option strategies, as well as in their minimum required margin, which is reflective of the worst case loss scenario. This proposal seeks to mirror the recent U.S. amendments, by recognizing these three core strategies and determining minimum capital and margin requirements reflective of the worst case loss scenario.

Regarding the applicability to index products and individual equity options, the U.S. rules regarding the three proposed new option offset strategies, as well as for the Box Spread, Long Butterfly Spread and Short Butterfly Spread, allow for the use of either American Style options or European Style options[6]. Furthermore, in the U.S. each of the option spreads under consideration (Long Butterfly Spread, Short Butterfly Spread, Box Spread, Long Condor Spread, Short Iron Butterfly Spread, Short Iron Condor Spread) is available for both individual equity options and broad and narrow based index options in margin accounts[7].

D Systems Impact of Rule

It is not anticipated that there will be any system impacts resulting from the implementation of these rule changes. The Bourse de Montreal is also in the process of passing these amendments. Implementation of these amendments will therefore take place once both the IDA and the Bourse de Montreal have received approval to do so from their respective recognizing regulators.

E Best Interests of the Capital Markets

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

F Public Interest Objective

According to the IDA's Order of Recognition as a self regulatory organization, the IDA shall, where requested, provide in respect of a proposed rule change "a concise statement of its nature, purposes (having regard to paragraph 13 above) and effects, including possible effects on market structure and competition". Statements have been made elsewhere as to the nature and effects of the proposal to amend the permitted option offset strategies and to expand the number of available option spreads involving individual equities. The specific purpose of this proposal is to recognize three new complex option offset strategies and to expand the number of available options spreads involving individual equities. As a result, the related general purpose of this proposal is "to facilitate fair and open competition in securities transactions generally".

The proposal does not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

The proposed amendments are considered to be in the public interest.

III COMMENTARY

A Filing in Other Jurisdictions

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

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5 In the U.S. a proposed rule change may be deemed "non-controversial" pursuant to Section 19 (b)(3)(A) of the Act and Rule 19b-4(f)(6). See Securities and Exchange Commission (Release No. 34-53743; File No. SR-NASD-2006-045).

6 CBOE rules allow certain limited risk spreads, derived from butterfly spreads and box spreads, to be established and carried in a cash account. To the extent that the U.S. rules differentiate between the use of either American or European Style options, it is regarding the purchase of option spreads in cash accounts, which must be composed of European style, cash settled index options that all expire at the same time.

7 See "Chicago Board Options Exchange – Margin Manual", CBOE, (April 2000), and CBOE Rules 12 (c)(6) – (9).

B Effectiveness

It is believed that the adoption of these amendments will be effective in reducing the existing excess conservatism in determining the margin and capital requirements for the three proposed option offset strategies. In general, the proposed amendments will allow capital to be used more efficiently, while expanding the number of option spread alternatives available to Members and investors.

C Process

This proposal was developed and recommended for approval by the FAS Capital Formula Subcommittee and reviewed and recommended for approval by the Financial Administrators Section.

IV SOURCES

References:

- CBOE Rules, Chapter XII; NYSE Rule 431; NASD Rule 2520 & 2522.
- "Chicago Board Options Exchange – Margin Manual", CBOE, (April 2000).
- IDA Regulation 100.9 and 100.10 (Customer and Member positions in options, futures and other equity-related derivatives).
- NASD Notice to Members 06-26, May 2006.
- "Reference Manual", Bourse de Montreal Inc., (March 2004).
- SEC Release No. 34-52739, November 4, 2005; SEC Release No. 34-52738, November 10, 2005; SEC Release No. 34-52950, December 14, 2005; SEC Release No. 34-52951, December 14, 2005; SEC Release No. 34-53743, April, 28 2006.

V OSC REQUIREMENT TO PUBLISH FOR COMMENT

The Association is required to publish for comment the accompanying rule amendments.

The Association has determined that the entry into force of the proposed rule amendments would be in the public interest. Comments are sought on the proposed rule amendments. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of Bruce Grossman, Information Analyst Regulatory Policy, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19th Floor, Box 55, Toronto, Ontario, M5H 3S8.

Questions may be referred to:

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INVESTMENT DEALERS ASSOCIATION OF CANADA
REGULATION 100.9 AND 100.10 –
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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 100.9(f)(i) is amended by adding the following words immediately following the words “one of the following spread pairings”:

   “for 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, 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, 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 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, 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, 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 –
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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 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 ~~one of the following~~ a box spread combination~~s:~~ on the same underlying interest with all options expiring at the same time,

~~- 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.

(vii) **Long butterfly spread**

Where a customer account contains ~~one of the following~~ a long butterfly spread combination~~s:~~ on the same underlying interest with all options expiring at the same time,

~~- 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).

(viii) **Short butterfly spread**

Where a customer account contains ~~one of the following~~ a short butterfly spread combinations~~:~~ on the same underlying interest with all options expiring at the same time,

~~- 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). 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**

~~(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).~~

(~~ii~~i) **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 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 ~~one of the following~~ a box spread combinations~~:~~ on the same underlying interest with all options expiring at the same time,

~~- 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.

(vii) **Long butterfly spread**

Where a Member account contains ~~one of the following~~ a long butterfly spread combinations~~:~~ on the same underlying interest with all options expiring at the same time,

~~- 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 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 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 ~~one of the following~~ a short butterfly spread combinations~~:~~ on the same underlying interest with all options expiring at the same time,

~~- 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). 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

~~(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 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~~i) **Index option and index participation unit option spread combinations**