

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

INVESTMENT DEALERS ASSOCIATION OF CANADA - REGULATION 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

BLACK LINE COPY OF AMENDMENTS

The following is a black-lined version of the approved amendments to IDA Regulations 100.9 and 100.10, which is different from the version proposed and published on October 13, 2006, at (2006) 29 OSCB 8203.

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:~~for~~

- 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 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 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 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 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 ~~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, 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**

(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 option (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).

(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 ~~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, 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 ~~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, 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**

(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).~~

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