

Regulations

Gouvernement du Québec

O.C. 697-87, 6 May 1987

Securities Act
(R.S.Q., c. V-1.1)

Regulation — Amendments

Regulation amending the Regulation respecting securities

WHEREAS under the Securities Act (R.S.Q., c. V-1.1), the Government may make regulations for the application of the Act;

WHEREAS under the Act, the Government, by Order in Council 660-83 dated 30 March 1983, made the Regulation respecting securities;

WHEREAS it is expedient to amend the Regulation;

WHEREAS in accordance with sections 10 and 11 of the Regulations Act (1986, c. 22), a Draft Regulation entitled Regulation amending the Regulation respecting securities was published in Part 2 of the *Gazette officielle du Québec* of 26 November 1986, with notice that it might be adopted by the Government upon the expiry of 45 days following that publication;

WHEREAS under the Securities Act, the Draft Regulation was also published in the Bulletin of the Commission on 28 November 1986;

IT IS ORDERED, therefore, upon the recommendation of the Minister for Finance and Privatization:

THAT the Regulation amending the Regulation respecting securities, attached to this Order in Council, be made.

BENOÎT MORIN,
Clerk of the Conseil exécutif

Regulation amending the Regulation respecting securities

Securities Act
(R.S.Q., c. V-1.1, s. 150, 159, 166, 300, 301, 331, 332 and 334) and (1984, c. 41, s. 120, 123, 130, 142, 147.11, 147.12, 147.15, 147.16 and 147.21)

1. The Regulation respecting securities, adopted by Order in Council 660-83 of March 30, 1983 and amended by the Regulation adopted pursuant to Orders in Council 1758-84 of August 8, 1984 and 1263-85 of June 26, 1985, is again amended in its English version by replacing in paragraph 2 and in the last paragraph of section 25 the words "issuer-distributor" by the words "security issuer".

2. Section 29 of this regulation is amended:

1) by replacing, in the French version, in the first paragraph the word "avocat" by the words "conseiller juridique";

2) by inserting, before the last paragraph, the following text:

"When a distribution takes place only in Québec, the previous notice is replaced by the following:

"The Securities Act (Québec) provides purchasers who have not received the preliminary prospectus with the right to withdraw from an agreement to purchase the securities within two business days after receipt of this prospectus, as well as remedies for rescission, price revision or damages where the prospectus contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the Act. The purchaser should refer to the applicable provisions of the Act for the particulars of these rights or consult with a legal advisor.".

3. This regulation is amended by replacing section 30.1 by the following:

30.1 When a firm underwriting agreement contains a market out clause, a statement, as set out in the following example, must appear on the first page of the prospectus:

"The firm underwriter conditionally offers the securities described in this prospectus subject to prior sale, if, as and when issued by the company and accepted by us in accordance with the conditions contained in the underwriting agreement referred to under Plan of Distribution on page _____ and subject to the approval of all legal matters by the lawyers of the company and of the underwriter."

This rule applies, *mutatis mutandis*, to a firm purchase agreement.

30.2 When securities are distributed only in Québec, the following warning regarding the scope of the distribution must appear on the first page of the prospectus:

"The securities offered by the present prospectus are offered only in Québec; they may be lawfully offered for sale only by persons registered with la Commission des valeurs mobilières du Québec."

When securities are distributed in more than one province, the previous notice is replaced by the following:

"This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and, therein only by persons permitted to sell such securities."."

4. This regulation is amended by inserting, after section 37.1, the following section:

37.2 When a distribution is made pursuant to an exemption, any disclosure document delivered to subscribers, even if such document is not required by the Act or the Regulations, must be filed without delay with the Commission, unless it has previously been filed."

5. This regulation is amended by replacing section 65 by the following:

65. A simplified prospectus must contain the following statement on the first page or on the outside cover:

"The information contained herein must be accompanied by the annual financial statements of the issuer for the last financial year and the auditors' report thereon, which statements and report are considered to form part of this document. If subsequent financial statements have been filed with the Securities Commission, a copy

of the most recent of such subsequent statements must also accompany this document."."

6. This regulation is amended by inserting, after section 65, the following section:

65.1 The incorporated or unincorporated mutual fund is exempted from the requirement prescribed by subparagraph 2 of section 18 of the Act."

7. This regulation is amended by replacing the second paragraph of section 73 by the following:

"In the case of commodity futures contracts, the document must present the information prescribed by Schedule VII.

In the case of options on future contracts, the document must reproduce the information prescribed by Schedule VII.2."

8. This regulation is amended by inserting, in section 84, between the words "lawyer" and "an auditor" the words "a notary,".

9. This regulation is amended by replacing section 94 by the following:

94. Within fifteen working days following the end of a distribution of securities by means of a prospectus or pursuant to the exemption provided by section 66, a report on the securities distributed in Québec must be filed with the Commission."

10. This regulation is amended by deleting the last paragraph of section 105.

11. This regulation is amended by replacing the last paragraph of section 106 by the following:

"These information are sent to the holders considered by the exchange. If the documents are sent to holders prior to the end of the delay prescribed by section 50 of the Act, they must mention that the transaction is subject to the approval of the Commission."

12. This regulation is amended by the addition at the end of the last paragraph of section 109 the following paragraph:

"A new offering notice must be prepared, within 90 days from the end of the financial year, only when, in relation with the information given at the outset, a material change occurs that is likely to affect the value or the market price of the securities being distributed."

13. This regulation is amended by replacing section 140 by the following:

"140. An issuer of tax shelter securities within the meaning of section 48 of the Act is required to furnish holders the information that they will need to claim in their tax return the fiscal benefit attached to these securities."

14. This regulation is amended by replacing the second paragraph of section 166 by the following:

"Subsequently, it is deemed to be accepted unless the Commission informs the issuer that it wishes to review it in accordance with the procedure prescribed by the preceding paragraph."

15. This regulation is amended by replacing in section 171 the figure "100" by the figure "98".

16. This regulation is amended by replacing in section 176 the figure "118" by the figure "128".

17. This regulation is amended by replacing in the first paragraph of section 180 the figure "two" by the figure "three".

18. This regulation is amended by replacing sections 181 to 183 by the following:

"181. The take-over or issuer bid circular, the circular of the board of directors, the notice of a senior executive, or any notice of variation or change must contain the following warning:

"Securities legislation in certain of the provinces and territories of Canada provides security holders of the offeree issuer, in addition to any other rights they may have, with rights of rescission or damages if there is a misrepresentation in a circular or notice that is required to be delivered to such security holders. However such rights must be exercised within the prescribed time limit. Security holders should refer to the applicable provisions of the securities legislation of his province or territory for the particulars of those rights or consult with a legal advisor."

When a bid is made only in Québec, the previous warning is replaced by the following:

"The Securities Act (Québec) provides security holders of the offeree issuer, in addition to any other rights they may have, with rights of rescission, price revision or damages if there is a misrepresentation in a circular or notice that is required to be delivered to such security holders. However such rights must be exercised within the prescribed time limit. Security holders should refer to the applicable provisions of the Act for the particulars of those rights or consult with a legal advisor."

"182. The take-over or issuer bid circular, the circular of the board of directors, the notice of a senior executive or any notice of variation or change must contain the following certificate:

"The present take-over bid circular (or issuer bid circular, circular of the board of directors, notice of a senior executive or any notice of variation or change, as the case may be) does not contain any misrepresentation likely to affect the value or the market price of the securities subject to the bid."

Where the bid is made by a legal person or on its behalf, the certificate is signed by the chief executive officer of the offeror, by the chief financial officer and by two other persons selected from among the directors and authorized to sign.

Where the legal person has fewer than four senior executives, they must all sign.

Where the bid is made by a natural person or on his behalf, he alone signs the take-over or issuer bid circular.

The circular of the board of directors is signed by two directors duly authorized to sign on behalf of the board.

The notice of a senior executive is signed by its author.

"183. A valuation of the offeree issuer, based on going concern or liquidation assumptions, must be made in the case of an issuer bid, insider bid or where the offeror plans to transform the offeree issuer into an entity that would be comparable to a closed company or plans to liquidate the offeree issuer, unless the offeror lacks access to the required information.

The valuation shall be as of a date of not more than 120 days prior to the date of the offer and shall contain appropriate adjustments for material intervening events. However, a valuation at a date more than 120 days prior to the date of the offer may be acceptable if accompanied by a letter of the valuer addressed to the directors of the issuer confirming that he has no reasonable ground to believe that any intervening event has materially affected the value or range of values determined in such valuation or, if there has been such an event, describing it and stating the resultant change on the valuation.

In particular, a valuation is required when the offeror intends to acquire after the bid all the voting securities of the offeree issuer. However, a valuation is not required when the securities are listed on an exchange recognized by the Commission, have been traded on at least 50 % of the trading days during each of the last

two months and that, for each of these days, the majority of the securities traded have been traded by persons other than insiders of the offeror, of the offeree or of affiliates and other than persons with whom these insiders are associates.

When an exchange take-over bid is taking place, the Commission may require a valuation of the offeror or of the company whose securities are given in exchange.

The valuation report is drawn up by an independent appraiser.

The circular must contain a summary of the valuation. In addition, it must also give an outline of any valuation, independent or not, prepared within two years preceeding the bid in respect of the offeree issuer, its material assets or its securities.”

19. This regulation is amended by inserting, after section 186, the following section:

“**186.1** Whenever a take-over or issuer bid circular, a circular of the board of directors, a notice of a senior executive or any notice of variation or change mentions the name of a person, by reason of the standing connected with his profession, in particular a lawyer, a notary, an accountant, an engineer, a geologist or an appraiser who has drafted or certified part of any of these documents or has made an appraisal or valuation or drawn up a report used in preparing of any of these documents, the written consent of that person and the appraisal or valuation or report must be filed with the Commission together with these documents.”

20. This regulation is amended by replacing sections 187 to 189 by the following:

“**187.** In the case of a take-over or issuer bid by way of an exchange of securities, the circular must present in addition to the information prescribed by Schedule XI or XIV, the information and the financial statements required by the Regulation for a prospectus of the issuer whose securities are offered in exchange.

For the prospectus information, the issuer which meets the conditions prescribed by section 160, 161 or 162 may avail itself of the simplified prospectus system.

However, even for the issuer that avails itself of the simplified prospectus system, the circular must present a pro forma balance sheet and income statement of the offeror to give effect to the exchange of securities. These financial statements are as of the date of the most recent financial statements of the offeror and of the offeree. They must also show the basic and fully diluted earnings per share.

“**188.** The report prescribed by section 120 of the Act must present the following information:

- (1) the name of the proposed purchaser;
- (2) the designation of the securities to be purchased;
- (3) the purchases of securities subject to the bid or convertible into such securities made over the last 12 months;
- (4) the number of securities subject to the bid or convertible into such securities he and his joint actors intend to purchase;
- (5) the dates of commencement and of the end of the purchases;
- (6) the terms and conditions contemplated for the purchase;
- (7) the extent of the interest of the purchaser, giving separately the securities subject to the bid and the securities convertible into such securities;

(8) the purpose and business reasons for the purchases.

A purchaser who meets the rules of an exchange recognized by the Commission for the purpose of section 120 of the Act is exempted from the requirements prescribed by the second paragraph of that section.

“**189.** The average market price, used to establish the margin of variation, is obtained by averaging the closing prices for the 20 days of market activity preceding the date of the transaction, or, if the market only gives the highest and the lowest prices, the average of the daily averages between the highest and lowest prices over the same period.

Where there is an organized market and the securities have been traded fewer than 10 days of the 20 days of market activity preceding the date of the transaction, the average market price is obtained by averaging the following prices determined for each of those 20 days:

1° the closing price or, if the closing price is not published, the average between the highest and the lowest prices, for each day that there has been trading;

2° the average of the bid and ask prices for each day on which there was no trading.

Where there is no organized market, the price arrived at and the method to obtain it require the approval of the Commission.

The price paid for the securities includes brokerage fees and commissions.

Where the exercise of an option to purchase securities would trigger the take-over bid provisions, the margin of variation is comprised of the excess of the cost of the option and the exercise price of the option over the average market price.

"189.1 When a security is traded on more than one market and one such market is within Canada, the prices, for the purposes of section 189, are determined by reference to that market.

However, when a security is traded on more than one market within Canada or only outside Canada, the prices are determined by reference to the market on which the greatest volume of trading of that security occurred during the preceding 20 days of market activity.

"189.2 The notice to security holders prescribed by section 130 of the Act must present the following information:

(1) a detailed description of the change in the initial terms or of the change in the facts on which the take-over or issuer bid circular is based;

(2) where applicable, the new expiry date for withdrawal, the new date up to which securities may be deposited, and the new date by which securities deposited on that new bid expiry date must be taken up and paid for;

(3) the date of the amendment or of the change.

(4) the certificate and the signatures in accordance with the provisions of section 182.

"189.3 The notice of change in the facts on which the circular of the board of directors or the notice of a senior executive is based must present a detailed description of the change, the statement prescribed by section 181 and must include the certificate and the signatures in accordance with the provisions of section 182.

"189.4 The press release prescribed by section 142 of the Act must present the following information:

(1) the name of the purchaser;

(2) the designation of the securities purchased;

(3) the date of the transaction;

(4) the number of securities purchased on that day;

(5) the highest price paid for the securities on that day;

(6) the aggregate number of securities purchased through the facilities of the stock exchange since the commencement of the bid and the average price paid;

(7) the resultant extent of the interest of the purchaser, showing separately the securities subject to the bid and those convertible into such securities.

If the purchase has been made by a person other than the offeror, the press release must indicate the relation of the purchaser with the offeror.

"189.5 The press release prescribed by section 147.11 of the Act must present the following information:

(1) the name of the purchaser;

(2) the number and the designation of the securities purchased;

(3) the resultant extent of the interest of the purchaser in each class of the securities of the issuer;

(4) the market where the order was executed;

(5) the name of the transferee when the securities are acquired by way of private agreements;

(6) the purpose and business reasons for the purchases.

"189.6 The report prescribed by section 147.11 or 147.12 of the Act must present the information prescribed by section 189.5 and be signed by the purchaser.

This report may be substituted for by the press release mentioned in section 189.5 if it is signed by the purchaser.

Where there is a material change in respect of the information given in the report, a description of the change must be given.

"189.7 The press release prescribed by section 147.15 or 147.16 of the Act must present the following information:

(1) the name of the purchaser;

(2) the designation of the securities purchased;

(3) the increase in the interest of the purchaser;

(4) the resultant extent of the interest of the purchaser giving separately the securities subject to the bid and the securities convertible into such securities;

(5) the purpose and business reasons.

"189.8 The notice prescribed by section 147.21 of the Act must be filed with the Commission and published in a press release at least five days prior to the date of the issuer bid and must present the following information:

- (1) the name of the issuer;
- (2) the class and number of shares or, in the case of debt securities, the principal amount of securities sought;
- (3) where known, the dates on which the issuer bid will commence and close;
- (4) the method of acquisition;
- (5) the consideration to be offered;
- (6) the particulars of the method and time of payment of the consideration;
- (7) the purpose and business reasons for the issuer bid;
- (8) where known, the name of those who propose to tender or accept the issuer bid amongst the following persons: senior executives of the issuer, associates or affiliates of the issuer, insiders of the issuer and their associates;
- (9) the benefit to any of the persons named in paragraph 8 of accepting or refusing to accept the issuer bid;
- (10) the particulars of any plans or proposals for material changes in the affairs of the issuer, in particular, any contract or agreement under negotiation, any proposal to liquidate the issuer, to sell, lease or exchange all or a substantial part of its assets, to amalgamate it with any other business organization or to make any material changes in its business, corporate structure, management or personnel.

The notice must be signed by a senior executive, duly authorized by the issuer's board of directors."

- 21.** The English version of this regulation is amended by replacing in section 192 the words "issuer-distributor" by the words "security issuer".
- 22.** This regulation is amended by inserting, between the words "dealer" and "who" in the first paragraph of section 194, the words "with an unrestricted practice".
- 23.** The English version of this regulation is amended by replacing in the second paragraph of section 195 the words "issuer-distributor" by the words "security issuer".
- 24.** The English version of this regulation is amended by replacing in the first and second paragraphs of section 201 the words "issuer-distributor" by the words "security issuer".

25. This regulation is amended by replacing paragraph 3 of section 213 by the following:

"(3) 10 000 \$ for the adviser."

26. This regulation is amended by replacing the second paragraph of section 228 by the following:

"A major position is defined as holding by one person of more than 10 % of the voting rights attached to the securities issued by the dealer or the person controlling it. In calculating the percentage of voting rights held by a person, the voting rights controlled by that person and his joint actors must be added to those that belong to that person and his joint actors, in particular due to the fact that they can exercise the voting rights attached to these securities."

27. This regulation is amended by replacing section 229 by the following:

"229. Paragraph 3 of section 228 does not apply to members of a self-regulatory organization recognized by the Commission."

28. The English version of this regulation is amended by replacing in section 230 the words "issuer-distributors" by the words "security issuers".

29. This regulation is amended by the addition in section 231 of the following paragraph:

"However, the Commission may, on the conditions it determines, authorize the person in charge of an establishment to authorize the opening of accounts."

30. This regulation is amended by replacing section 236.2 by the following:

"236.2 A dealer may not act as lead underwriter in the case of the distribution of the securities of an associate or of a person who holds 10 % or more of the voting rights of the dealer.

He may neither act as lead underwriter nor as principal best effort underwriter in the case of the distribution of the securities of an issuer in the capital of which himself, one of its senior executives or a person with whom one of the senior executives is an associate, holds 10 % or more of the voting rights."

31. This regulation is amended by replacing section 241 by the following:

"241. In the case of an adviser or of a representative of a broker or adviser, the statement prescribed by section 166 of the Act must contain the following information:

(1) the number of securities of the investment recommended held by the adviser or the representative;

(2) the number of securities of the same issuer, but of another class, held by the adviser or the representative;

(3) the options or other rights held by the adviser or the representative in respect of the securities referred to in paragraphs 1 and 2;

(4) the remuneration to be received as a result of transactions in the securities recommended.”

32. This regulation is amended by inserting, after section 242, the following section:

“**242.1** A registered person who, as an ancillary activity, gives advices through the press must declare, for each security recommended, whether or not he holds a position or whether or not he has the intention to make any transactions. He must also declare whether he is an insider or a senior executive of the company whose securities are recommended. This statement must appear at the beginning or at the end of the article in bold letters or in italics of a size equivalent at least to that of the article.

“**242.2** A registered person who, as an ancillary activity, gives advice through a financial letter published by a registered adviser must make the statement prescribed by section 242.1.”

33. This regulation is amended by replacing sections 255 and 256 by the following:

“**255.** A security bought or subscribed by a member of the Commission or by a member of its personnel must be kept by the acquiror for a minimum of six months from the date of the transaction, except for a security obtained under a dividend reinvestment plan or received in a stock dividend distribution or in the case of the exercise of a warrant or the sale of a warrant acquired with the subscription of another security.

“**256.** Within five days following the receipt of the confirmation slip, a declaration must be sent to the president of the Commission.

“**256.1** The prohibitions applicable to the members of the Commission are also applicable to transactions they may make through or in the name of associates.”

34. This regulation is amended by replacing, after section 293, the following “Title IX Additional Exemption and Coming into Force” by the following “Title VIII Additional Exemption”.

35. This regulation is amended by replacing the first paragraph of paragraph 3 of Item 22 of Schedule I by the following:

“Remuneration pursuant to plans need be taken into account only to the extent that they discriminate, in scope, terms or operation in favor of executive officers or are not available to all full time employees other than those covered by collective agreements.”

36. This regulation is amended by replacing paragraph 5 of Item 22 of Schedule I by the following:

“5. Termination of employment or change of control

Describe any plan or arrangement in respect of compensation received or that may be received by executive officers in the last financial year in view of compensating such officers in the event of the termination of employment (resignation, retirement, change of control) or in the event of a change in responsibilities following a change in control, where in respect of an executive officer the value of such compensation exceeds 60 000 \$.”

37. The French text of this regulation is amended by replacing, in the first line of paragraph 2 of Item 10 of Schedule II, the word “évaluation” by the word “évaluation”.

38. This regulation is amended by replacing paragraph 3 of Item 2 of Schedule III by the following:

“3. In the case of restricted shares, comply with the policy statements of the Commission.”

39. This regulation is amended by replacing Item 21 of Schedule III by the following:

“Item 21:

Remuneration of senior executives and insiders

Give the information required by Item 22 of Schedule I. In the case of other insiders, give aggregate amount of remuneration paid during each financial year in question. In the case of a remuneration paid otherwise than in cash, give the value or, if it is not possible, give a description.”

40. This regulation is amended by the addition after Item 9 of Schedule IV of the following item:

“Item 9.1

Engineering report

In the case of a natural resource company, where a significant portion of the proceeds of an issue is to be

expended on a particular property, the simplified prospectus of an issuer who fulfills the conditions of paragraphs 1 and 2 of section 160 or of section 161 or 162 must refer to the report prescribed by section 91 whereby the simplified prospectus of an issuer who does not fulfill these conditions must contain a summary of the report. In both cases, the simplified prospectus must mention that the report is on public file with the Commission.”.

41. This regulation is amended by replacing Item 1 of Schedule V by the following:

“Item 1:

Statement on the first page or on the cover

The simplified prospectus must contain, on the first page or on the cover page, the statement prescribed by section 65.”.

42. The French text of this regulation is amended by replacing, in the second line of paragraph 2 of Item 10 of Schedule V, the word “évaluation” by the word “évaluation”.

43. The English version of this regulation is amended by replacing, in the line before the last line of Item 12 of Schedule V, the figure “four” by the figure “five”.

44. This regulation is amended by replacing the first paragraph of paragraph 3 of Item 10 of Schedule VI by the following:

“Remuneration pursuant to plans need be taken into account only to the extent that they discriminate, in scope, terms or operation in favor of executive officers or are not available to all full time employees other than those covered by collective agreements.”.

45. This regulation is amended by replacing paragraph 5 of Item 10 of Schedule VI by the following:

“5. Termination of employment or change of control

Describe any plan or arrangement in respect of compensation received or that may be received by executive officers in the last financial year in view of compensating such officers in the event of the termination of employment (resignation, retirement, change of control) or in the event of a change in responsibilities following a change in control, where in respect of an executive officer the value of such compensation exceeds 60 000 \$.”.

46. This regulation is amended by replacing Schedule VII.1 by the following:

**“SCHEDULE VII.1
INFORMATION DOCUMENT CONCERNING
EXCHANGE TRADED OPTIONS**

No securities commission or similar authority in Canada has in any way passed upon the merits of options referred to herein and any representation to the contrary is an offence. This document contains condensed information respecting the options referred to herein. Additional information may be obtained from your dealer.

**DISCLOSURE STATEMENT FOR EXCHANGE
TRADED OPTIONS**

A high degree of risk may be involved in the purchase and sale of options, depending to a large measure on how and why options are used. Options may not be suitable for every investor. See “Risks in options trading” and “Additional information”.

Introduction

This disclosure statement sets forth general information and considerations relevant to the purchase and sale of put and call options traded on an exchange and cleared through a clearing corporation. Information concerning the underlying interests on which options are traded, the specific terms of these options, the exchanges on which they trade and the applicable clearing corporations may be obtained from your dealer. Information on investment strategies and possible uses of options may also be obtained from your dealer.

This disclosure statement refers only to options and clearing corporations which have been recognized or qualified for purposes of this disclosure statement by provincial securities administrators where required.

Nature of an option

An option is a contract entered into on the floor on an exchange between a seller (sometimes called a “writer”) and a purchaser where all the terms of the contract (sometimes called the “specifications”), other than the consideration (called the “premium”) for the option paid by the purchaser to the seller, are standardized and predetermined by the exchange. The premium is determined on an exchange’s auction market on the basis of supply and demand, reflecting such factors as the duration of the option, the difference between the exercise price of the option and the market price of the underlying interest, the price volatility and other characteristics of the underlying interest.

There are two types of options: calls and puts. An option gives the purchaser a right to buy (in case of a call) or sell (in case of a put) a specific underlying interest at a stated exercise price and within a specified

period of time or on a specific date. An option subjects the seller to an obligation to honour the right granted to the purchaser if exercised by the purchaser. Underlying interests can be shares of a specific corporation, bonds, notes, bills, certificates of deposit, commodities, foreign currency, the cash value of an interest in a stock index or any other interest provided for in the specifications.

An option transaction is entered into on the floor of an exchange by a purchaser and a seller represented by their respective dealers. When the transaction is concluded it is cleared by a clearing corporation affiliated with the exchange on which the option is traded. When an option transaction is cleared by the clearing corporation it is divided into two contracts with the clearing corporation becoming the seller to the purchaser in the transaction and the purchaser to the seller. Thus on every outstanding option, the purchaser may exercise the option against the clearing corporation and the seller may be called upon to perform his obligation through exercise of the option by the clearing corporation.

There are two groups of options: actual delivery options and cash delivery options. An actual delivery option requires the physical delivery of the underlying interest when the option is exercised. A cash delivery option requires a cash payment of the difference between the aggregate exercise price and the value of the underlying interest when the option is exercised.

Options are issued in series designated by an expiration month, an exercise price, an underlying interest and a unit of trading. At the time trading is introduced in options with a new expiration month, the exchange on which the option is traded establishes exercise prices that reflect the current spot prices of the underlying interest. Generally, three series of options are introduced with exercise prices at, below and above the current spot price. When the spot price of the underlying interest moves, additional options may be added with different exercise prices. Options having the same underlying interest and expiration month, but having different exercise prices, may trade at the same time.

Specifications of options

Each exchange fixes the terms and conditions of the options which it lists. These terms may include such items as trading units, exercise prices, expiration dates, last day of trading, etc.

An option may be bought or sold only on the trading floor of the exchange on which the option is listed. The exchange and the clearing corporation may each impose restrictions on certain types of transactions, and under

certain circumstances may modify the terms of outstanding options. In addition, an exchange may limit the number of options on the same side of the market which may be held by an investor (totalling long calls and short puts, and totalling short calls and long puts), and may limit the exercise of options under prescribed circumstances.

Exercising options

An option may have either an American style exercise or European style exercise irrespective of where the exchange is located. An American style option can be exercised by the purchaser at any time before the expiration. To do this, the purchaser notifies the dealer through whom the option was purchased. A purchaser should ascertain in advance from his dealer the latest date on which he may give such notice to his dealer. An European style option may only be exercised by the purchaser on a specified date. Upon receiving an exercise notice from the purchaser's dealer, the clearing corporation assigns it to a member which may re-assign to it a client on a random or other predetermined selection basis.

The assignment of a notice of exercise of an option to a seller constitutes the exercise of the option. Upon exercise, the seller must make delivery of (in the case of a call) or take delivery of and pay for (in the case of a put) the underlying interest. In the case of a cash delivery option, the seller must, in lieu of delivery, pay the positive difference between the aggregate exercise price and the exercise value of the underlying interest (in the case of both a call and a put).

A purchaser of an option which expires loses the premium paid for the option and his transaction costs. The seller of an option which expires will have as his gain the premium received for the option less his transaction costs.

Trading of options

Each exchange provides a facility for secondary market trading of its options whereby, prior to expiration of an option, a purchaser may close his open long position through a closing sale transaction, if available, and a seller may close his open short position through a closing purchase transaction, if available. Closing purchase and sale transactions (sometimes called "offsetting transactions") must be effected through the dealer through whom the option was initially sold or purchased.

Price movements in the underlying interest of an option will generally be reflected to some extent in the secondary market value of the option and the purchaser

who wishes to realize a profit will have to sell or exercise his option.

Margin requirements

Prior to trading options, a seller must deposit with his dealer cash or securities as collateral (called "margin") for the obligation to buy (in the case of a put) or sell (in the case of a call) the underlying interest if the option should be exercised. Minimum margin rates are set by the exchange on which the option trades. Higher rates of margin may be required by the seller's dealer.

Margin requirements of various exchanges may differ. In addition, they are subject to change at any time and such changes may apply retroactively to options positions previously established.

Commission charges

Commissions are charged by dealers on the purchase or sale of options as well as on the exercise of options and the delivery of underlying interests.

Risks in options trading

Options can be employed to serve a number of investment strategies including those concerning investments in or related to underlying interests. **SOME STRATEGIES FOR BUYING AND SELLING OPTIONS INVOLVE GREATER RISK THAN OTHERS.**

The following is a brief summary of some of the risks connected with trading in options:

1. Because an option has a limited life, the purchaser runs the risk of losing his entire investment in a relatively short period of time. If the price of the underlying interest does not rise above (in the case of a call) or fall below (in the case of a put) the exercise price of the option plus premium and commission charges during the life of the option, or by the specified date for exercise, as the case may be, the option may be of little or no value and if allowed to expire will be worthless.

2. The seller of a call who does not own the underlying interest is subject to a risk of loss should the price of the underlying interest increase. If the call is exercised and the seller is required to purchase the underlying interest at a market price above the exercise price in order to make delivery, he may suffer a loss.

3. The seller of a put who does not have a corresponding short position (that is an obligation to deliver what he does not own) in the underlying interest may suffer a loss if the price of the underlying interest decreases below the exercise price, plus commission

charges minus the premium received. Under such circumstances, the seller of the put will be required to purchase the underlying interest at a price above the market price, with the result that any immediate sale will give rise to a loss.

4. The seller of a call who owns the underlying interest is subject to the full risk of his investment position should the market price of the underlying interest decline during the life of the call, or by the specified date for exercise, as the case may be, but will not share in any gain above the exercise price.

5. The seller of a put who has a corresponding short position in the underlying interest is subject to the full risk of his investment position should the market price of the underlying interest rise during the life of the put, or by the specified date for exercise, as the case may be, but will not share in any gain resulting from a decrease in price below the exercise price.

6. Transactions for certain options may be carried out in a foreign currency. Accordingly, purchasers and sellers of these options using Canadian dollars will be exposed to risks from fluctuations in the foreign exchange market as well as to risks in the fluctuations in the price of the underlying interest.

7. There can be no assurance that a liquid offset market will exist for a particular option to permit a closing sale transaction or a closing purchase transaction. For example, there may be insufficient trading interest in the particular option; or trading halts, suspensions or other restrictions may be imposed on the option or the underlying interest; or some event may interrupt normal exchange operations; or an exchange could for regulatory or other reasons decide or be compelled to discontinue or restrict trading in the option. In such circumstances the purchaser of the option would only have the alternative of exercising his option in order to realize any profit, and the seller would be unable to terminate his obligation until the option expired or until he performed his obligation upon being assigned an exercise notice. In the case of an American style option, the purchaser can exercise his option at any time until expiration and the seller can receive an exercise notice at any time until expiration. In the case of a European style option, the purchaser can only exercise his option on a specified date and the seller can only receive an exercise after the exercise.

8. The seller of an American style option has no control over when he might be assigned an exercise notice. He must assume that an exercise notice will be assigned to him at any time when exercise is advantageous to the purchaser and that, in such circumstances, the seller may incur a loss.

9. In unforeseen circumstances there may be a shortage of underlying interests available for delivery upon exercise of actual delivery options, which could increase the cost of or make impossible the acquisition of the underlying interests in the spot market and cause the clearing corporation to impose special exercise settlement procedures.

10. In addition to the risks described above which apply generally to the buying and selling of options, there are timing risks unique to options that are settled by the payment of cash.

The exercise of options settled in cash results in a cash payment from the seller to the purchaser based on the difference between the exercise price of the option and the closing price (regardless of the actual time of exercise) of the underlying interest on the day of exercise.

The purchaser of a cash delivery option who exercises the option prior to the close of trading in the underlying interest will suffer from any unfavourable change in the value of the underlying interest from the time of his decision to exercise to the close of trading in the underlying interest when the exercise value is determined. With actual delivery options, this risk can be covered by a complementary transaction in the actual market for the underlying interest.

The seller of a cash delivery option is not informed that he has been assigned an exercise notice at the earliest until the business day following exercise and the seller will suffer from any unfavourable change in the value of the underlying interest from the close of trading in the underlying interest on the day of exercise to the time he learns that he has been assigned. Unlike the seller of an actual delivery option, the seller of a cash delivery option cannot satisfy his assignment obligations by delivery of the lower valued underlying interest, but must pay cash in an amount determined by the closing price of the underlying interest on the exercise date.

The type of risk discussed above makes spread positions and certain other combined option strategies involving cash delivery options substantially more risky than similar strategies involving actual delivery options.

Tax consequences

The income tax consequences of trading in options are dependent upon the nature of the business activities of the investor and the transaction in question. Investors are urged to consult their own professional advisers to determine the consequences applicable to their particular circumstances.

Additional information

Before buying or selling an option an investor should discuss with his dealer:

- his investment needs and objectives;
- the risk he is prepared to take;
- the specifications of options he may wish to trade;
- commission rates;
- margin requirements;
- any other matter of possible concern.

Specifications for each option are available on request from your dealer and from the exchange on which the option is listed. Should there be any difference in interpretation between this document and the specifications for a given option, the specifications shall prevail."

47. This regulation is amended by inserting, after Schedule VII.1, the following Schedule:

"SCHEDULE VII.2 DISCLOSURE STATEMENT FOR EXCHANGE-TRADED COMMODITY FUTURES OPTIONS

No securities commission or similar authority in Canada has in any way passed upon the merits of Options referred to herein and any representation to the contrary is an offence. This document contains condensed information respecting the Options referred to herein. Additional information may be obtained from your broker.

DISCLOSURE STATEMENT FOR EXCHANGE-TRADED COMMODITY FUTURES OPTIONS

A high degree of risk may be involved in the purchase and sale of Options, depending to a large measure on how and why Options are used. Options may not be suitable for every Investor. See "Certain Risk factors" and "Additional Information".

DATE

NAME AND ADDRESS OF BROKER

SUMMARY DISCLOSURE STATEMENT WITH
RESPECT TO EXCHANGE-TRADED
COMMODITY FUTURES OPTIONS

PART I INTRODUCTION

This Summary Disclosure Statement describes in general terms the nature, the requirements for and the risks involved in the purchase or sale of Commodity Futures Options in transactions on a Commodity Futures Exchange, which transactions are cleared through the facilities of the appropriate clearing house.

Generally, a Commodity Futures Option (option) is a contract which gives the Holder or Purchaser, for a consideration, the right to buy or sell a specific futures contract (the "Underlying Futures Contract") at a stated Exercise Price and within a specified period of time. The consideration is the Premium that is paid for the purchase and sale of an option, and this Premium is determined by agreement of the parties in a transaction on the floor of a Commodity Futures Exchange. The Premium is paid by the Purchaser ("Holder") and is received by the Seller ("Writer") of an option. No portion of the Premium is retained by the exchange on which the option transaction is executed nor by the clearing house through whose facilities the transaction is cleared. In addition, buyers and sellers of options pay transaction costs, which may include commissions, fees and other charges that may be incurred in connection with each option transaction.

Before you trade commodity futures options, you should carefully read this statement. This is important because of the particular risks involved.

If you plan to buy a commodity futures option, you should realize that you will pay both a premium and a commission. The premium compensates the seller or writer of the option for the risks he assumes; the commission compensates the dealer who handles the transaction for you. Accordingly, if you are to avoid a loss, the price of the underlying futures contract must — before the expiry of the option — rise above or fall below the exercise price, as the case may be, sufficiently to absorb both the premium and the commission.

If you plan to sell a commodity futures option, you should realize that you will be obligated to buy or sell the underlying futures contract should the purchaser decide to exercise the option. If you write an option and you do not have a corresponding long or short position in the underlying futures contract, there is no limit to your possible loss, which is determined entirely by the amount of the rise or decline in the price of the underlying futures contract.

No securities commission or similar authority in Canada has in any way passed upon the merits of commodity futures options described herein and any representation to the contrary is an offence.

This is not the only part of this Disclosure Statement that is important. You should study carefully Part II of this Disclosure Statement and ask any questions about it that may not be clear to you before you enter your first transaction.

PART II DESCRIPTION OF COMMODITY FUTURES OPTIONS TRADING

Contents	Page/s
Glossary of Terms	
Nature of Commodity Futures Options	
Certain Risk Factors	
Mechanics of Commodity Futures Options Trading	
Margin Requirements	
Exercising Commodity Futures Option	
Expiration Date of Commodity Futures Options	
Clearing	
Currency	
Commission and Other Transaction Costs	
Exchange and Clearing House	
Contract Specifications	
Tax consequences	
Additional information	
Acknowledgement	

GLOSSARY OF TERMS

1. **Commodity Futures Exchange:** an Association or organization, whether incorporated or otherwise, operated for the purpose of providing the physical facilities necessary for the trading of commodity futures contracts or commodity futures options.

2. **Exchange-Traded Commodity Futures Options:** the Commodity Futures Options discussed in this Disclosure Statement are Call Options and Put Options ("Calls" and "Puts") which are traded on one or more Commodity Futures Exchanges. Each Exchange-Traded Options is distinguished by the Underlying Futures Contract, Exercise Price, Expiration Date and whether the option is a Call or a Put.

(a) **Call option:** a contract which gives the Holder the right to buy and the Writer the obligation to sell the Underlying Futures Contract at a stated Exercise Price on or before the Expiration Date of the option.

(b) **Put Option:** a contract which gives the Holder the right to sell and the Writer the obligation to buy the Underlying Futures Contract at a stated Exercise Price on or before the Expiration Date of the option.

(c) **Underlying Futures Contract:** the Commodity Futures Contract, traded on a Commodity Futures Exchange, which may be purchased or sold upon exercise of a Commodity Futures Option.

(d) **Exercise Price:** the stated price at which the Holder may purchase from or sell to the Writer the Underlying Futures Contract upon exercise of a Commodity Futures Option. It is also referred to as the "Strike Price".

(e) **Premium:** the amount agreed upon between the parties for the purchase and sale of a Commodity Futures Option.

(f) **Expiration Date:** the last day when a Commodity Futures Option may be exercised by the Holder.

(g) **Holder:** the purchaser of a Call or Put Option. He is said to have a long position.

(h) **Writer:** The seller of a Call or Put Option. He is said to have a short position.

3. **Type of Option:** a Call or a Put Option.

4. **Class of Options:** all Commodity Futures Options of the same type having the same Underlying Futures Contract.

5. **Series of Options:** all Commodity Futures Options of the same class having the same Exercise Price and Expiration Date.

6. **Long Position:** to have a long position with respect to a Commodity Futures Option means to have the right to exercise the option on or before the Expiration Date. To have a long position with respect to an Underlying Futures Contract means to be under an obligation to take delivery of the underlying commodity.

7. **Short Position:** to have a short position with respect to a Commodity Futures Option means to be under an obligation to buy or sell the underlying Futures Contract upon exercise of the option. To have a short position with respect to an Underlying Contract means to be under an obligation to make delivery of the underlying commodity.

8. Types of Option Transactions:

(a) **Opening Purchase Transaction:** a transaction in which a person purchase a Commodity Futures Option and thereby initiates or increases a long position.

(b) **Opening Sale Transaction:** a transaction in which a person sells or writes a Commodity Futures Option and thereby initiates or increases a short position.

(c) **Closing Purchase Transaction:** a transaction in which a person with a short option position liquidates the position by buying an option of the same series as the option previously sold or written. Such a transaction is also referred to as an "Offsetting Transaction".

(d) **Closing Sale Transaction:** a transaction in which a person with a long position liquidates the position by selling an option of the same series as the option previously purchased. Such a transaction is also referred to as an "Offsetting Transaction".

NATURE OF COMMODITY FUTURES OPTIONS

When you trade a Commodity Futures Option (option), you are entering into an agreement you acquire the right (if you are a Holder) or the obligation (if you are a Writer) to buy or sell the Underlying Futures Contract at a stated Exercise Price on or before a specified Expiration Date. The Holder of the option pays a consideration called "Premium" to acquire the right, whereas the Writer of the option receives the Premium as compensation for undertaking the obligation.

There are two types of options — the Call Option and the Put Option. A Call Option gives the Holder the right to buy and the Writer the obligation to sell the Underlying Futures Contract. A Put Option on the other hand gives the Holder the right to sell and the Writer the obligation to buy the Underlying Futures Contract.

With the exception of the Premium, all the other terms of Commodity Futures Options are standardized and determined by the Commodity Futures Exchange on which they are traded, particularly the Exercise price and Expiration Date. The Premium is not fixed and is determined on an exchange's auction market on the basis of supply and demand, reflecting such factors as the duration of the option, the difference between the Exercise Price of the option and the market price of the Underlying Futures Contract, and the price volatility and other characteristics of the Underlying Futures Contract.

As the Holder of an option, you may exercise your right to buy or sell the Underlying Futures Contract at any time before the Expiration Date of the option. If you exercise a Call Option, you will buy the Underlying Futures Contract, thereby assuming a long position in the futures contract market. If you exercise a Put Option, you will sell the Underlying Futures Contract,

thereby assuming a short position in the futures contract market.

As the Writer of an option, you may be assigned an exercise notice at any time prior to the Expiration Date of the option, in which event you will be obligated to buy or sell the Underlying Futures Contract. If the exercise notice involves a Call Option that you have written, you will be required to sell the Underlying Futures Contract, thereby assuming a short position in the futures contract market. If the exercise notice involves a Put Option that you have written, you will be required to buy the Underlying Futures contract, thereby assuming a long position in the futures contract market.

Whether you are a Holder or a Writer of an option, if as a result of an exercise of the option you assume a position in the Underlying Futures Contract, you will be subject to the margin requirements for and all of the risks associated with futures contract trading. Before you trade Commodity Futures Options, therefore, you should understand the procedures for and the consequences resulting from the exercise of an option. These are described in more detail under "Exercising Commodity Futures Options".

The Holder of an option is not obligated to exercise his option if it is not profitable for him to do so, in which case the option expires worthless and he loses the premium he paid for it. If the Holder does not exercise his option, the Writer's obligation under the option ceases upon the expiry of the option, and he profits from the transaction because he retains the premium paid by the Holder.

Instead of exercising his option, however, the Holder may choose to offset his position prior to the Expiration Date of the option if it is profitable for him to do so. He can do this by executing a closing sale transaction. The Writer of an option may avoid his obligation by offsetting his position at any time prior to the expiry of the option. He can do this by executing a closing purchase transaction. Thus, the Holder of a Call Option may liquidate his position by selling a Call Option of the same series as the one previously purchased, whereas the Writer of a Call Option offsets his position by buying a Call Option of the same series as the one previously sold. The Holder of a Put Option liquidates his position by selling a Put Option of the same series as the one previously purchased, whereas the Writer of a Put Option offsets his position by buying a Put Option of the same series as the one previously sold.

Although Commodity Futures Options trading has this offsetting feature which can, in some way, limit the risks of trading options, there may be certain circumstances under which it may not be possible for

you to offset your option position. These situations and their possible adverse effects are described under "Mechanics of Commodity Futures Options Trading".

CERTAIN RISK FACTORS

Commodity Futures Options are speculative. Consequently, only risk capital should be used to trade them. Before a person purchases or writes an option, he should inform himself of the risks involved and should determine whether such a transaction is appropriate for him in light of his financial situation and investment objectives.

Since the value of a Commodity Futures Option depends largely upon the likelihood of favourable price movements in the Underlying Futures Contract in relation to the Exercise Price during the life of the option, historical price and volume information concerning the Underlying Futures Contract may be significant in evaluating the risks of an option transaction. Historical price and volume information are available through various financial publications and in the financial press. Notwithstanding the availability of such information, however, specific market movements in the price of the Underlying Futures Contract cannot be accurately predicted.

Some of the risks involved in trading Commodity Futures Options are summarized below:

1. The purchaser of a Call or Put option runs the risk of losing his entire investment — that is, the Premium paid for the option plus all transaction costs — in a relatively short period of time.

With respect to the purchase of a Call Option, should the market price of the Underlying Futures Contract not rise above the Exercise Price, the Call Option becomes entirely unprofitable at its expiration. Furthermore, if for some reason the Call Option cannot subsequently be sold on an exchange (see "Mechanics of Commodity Futures Options Trading"), the value of the Underlying Futures Contract must move sufficiently above the Exercise Price to cover the Premium and transaction costs in order that the option can be exercised at a profit. The risk of purchasing a Call Option is particularly great where the Exercise Price is considerably above the market price of the Underlying Futures Contract, or where the option is approaching its Expiration Date. In these circumstances, there is less likelihood of the Call Option increasing in value so as to make it profitable for the Holder to exercise the option or effect an offsetting transaction. Anyone purchasing such a Call Option must expect to lose the amount paid for it and related transaction costs.

With respect to the purchase of a Put Option, should the market price of the Underlying Futures Contract not decline below the Exercise Price, the Put Option becomes entirely unprofitable at its expiration. Furthermore, if for some reason the Put Option cannot subsequently be sold on an exchange (see "Mechanics of Commodity Futures Options Trading"), the value of the Underlying Futures Contract must move sufficiently below the Exercise Price to cover the Premium and transaction costs in order that the option can be exercised at a profit. The risk of purchasing a Put Option is particularly great where the Exercise Price is considerably below the market price of the Underlying Futures Contract, or where the option is approaching its Expiration Date. In these circumstances, there is less likelihood of the Put Option increasing in value so as to make it profitable for the Holder to exercise the option or effect an offsetting transaction. Anyone purchasing such a Put Option must expect to lose the amount paid for it and related transaction costs.

Accordingly, you should not commit any amount of money to the purchase of Calls or Puts unless you are able to withstand the loss of the entire amount so committed.

2. The Writer of a Call Option who does not have a long position in the Underlying Futures Contract is subject to a risk of loss should the price of the Underlying Futures Contract increase. He may be required to sell the Underlying Futures Contract at an Exercise Price which could be less than the price he must pay to acquire the Underlying Futures Contract.

This type of Call Option writing is extremely risky, and a person engaging in such Call Option transactions could incur large losses. Therefore, only sophisticated investors having substantial capital should engage in this type of transaction. Even such persons must expect to incur substantial losses in many of these Call writing transactions.

3. The Writer of a Call Option who has a long position in the Underlying Futures Contract deliverable upon exercise of the option is subject to the full risk of his underlying position in case of a decline in the price of the Underlying Futures Contract, although he has limited protection against such risk to the extent of the Premium received in writing the Call Option. In exchange for the Premium, however, and as long as he remains the Writer of a Call Option, he gives up the opportunity for gain resulting from an increase in the price of the Underlying Futures Contract above the Exercise Price because of the likelihood that the Call Option will be exercised by the Holder.

4. The Writer of a Put Option who does not have a short position in the Underlying Futures Contract is

subject to risk of loss should the price of the Underlying Futures Contract decline. He may be required to buy the Underlying Futures Contract at an Exercise Price which could be more than the market price of the Underlying Futures Contract.

This type of Put Option writing is extremely risky, and a person engaging in such Put Option transactions could incur large losses. Therefore, only sophisticated investors having substantial capital should engage in this type of transaction. Even such persons must expect to incur substantial losses in many of these Put writing transactions.

5. The Writer of a Put Option who has a short position in the Underlying Futures Contract is subject to the full risk of his underlying position in case of a rise in the price of the Underlying Futures Contract, although he has limited protection against such risk to the extent of the Premium received in writing the Put Option. In exchange for the Premium, however, and as long as he remains the Writer of a Put Option, he gives up the opportunity for gain resulting from a decline in the market price of the Underlying Futures Contract because of the likelihood that the Put Option will be exercised by the Holder.

It should be emphasized that the Writer of a Call or Put Option has no control over when he might be required to respond to an exercise notice. Indeed, he must assume that he may be assigned an exercise notice at any time when the exercise of a Call or Put Option is advantageous to the Holder and that in such circumstances the Writer may incur a loss.

The risks of Commodity Futures Options transactions described above may be moderated to the extent that a market in particular options is available on a Commodity Futures Exchange. This permits Holders and Writers in the appropriate circumstances to limit their losses by closing out or offsetting their positions prior to the time trading in these options ceases. Remember, however, that an offset market may not exist for a particular option under certain circumstances. This possibility should always be taken into account in considering the risks of Commodity Futures Options trading.

MECHANICS OF COMMODITY FUTURES OPTIONS TRADING

The rules of the Commodity Futures Exchange on which a Commodity Futures Option is listed govern the trading of such option. Under such rules, options can be bought and sold only on the trading floor of the exchange. Furthermore, the trading mechanisms established by such rules are designed to provide for competitive execution of buy and sell orders, and to make available to buyers and sellers a continuous market in

which an option purchased can later be sold or an option sold can later be liquidated by an offsetting purchase.

Although each exchange's trading mechanisms are designed to provide market liquidity for the options traded on that exchange, it must be recognized that there can be no assurance that a liquid offset market on the exchange will exist for any particular option, or at any particular time, and for some options, no offset market on that exchange may exist at all. The following are among the reasons why it may be impossible to offset an option position: (i) there may be insufficient trading interest in certain options; (ii) the exchange may have imposed restrictions on certain options; (iii) trading halts, suspensions or other restrictions may be imposed; (iv) unusual or unforeseen circumstances may interrupt normal exchange operations; (v) one or more exchanges could, for regulatory or other reasons, decide or be compelled at some future date to discontinue or restrict trading of options. In such circumstances, offsetting trades cannot be made although existing options will continue to be exercisable in accordance with their terms.

If any of the foregoing events, it might not be possible to effect offsetting transactions in particular options. Under those circumstances, the market price of the Underlying Futures Contract must either rise above or fall below (as the case may be) the Exercise Price of the option by an amount in excess of the Premium and other costs incurred in the purchase of the option in order for it to be profitable. But in order for the Holder of an option to actually realize a profit, he would have to exercise the option, in which event he would have to comply with the margin requirements for the Underlying Futures Contract. On the other hand, the Writer of the option cannot do anything about his option position because he does not have a right to exercise. His obligation under the option cannot be terminated until it expires and the Holder has not exercised his right.

Exchanges may also have rules which limit the amount of price fluctuation for commodity futures contracts and Commodity Futures Options during a single trading day. It should be emphasized, however, that not all futures contracts and not all Commodity Futures Options are subject to such limits. For those that are subject to daily limits, the limits may be removed at some point prior to the respective delivery month or Expiration Date. For those that are not subject to daily limits, exchange rules may provide for the imposition of limits under certain circumstances.

You should fully understand provisions relating to daily limits which are applicable to specific Commodity

Futures Options and their related Underlying Futures Contracts.

Where daily limits are in effect, they establish the maximum amount that the Premium for an option may vary from the previous day's price. Once the daily limit has been reached in a particular option, no trades may be made at a price beyond the limit. Positions in the option contracts can be opened or closed out only if traders are willing to offset trades at or within the limit during the period for trading on such day. The daily limit rule does not limit losses which might be suffered by a client, because it may prevent the liquidation of unfavourable positions. Also, option prices may move the daily limit for several consecutive trading days, thus preventing liquidation and subjecting a person with a Commodity Futures Option position to possible substantial losses.

MARGIN REQUIREMENTS

Margins with respect to Commodity Futures Options apply only to Writers of options. The Holders have already paid a Premium in order to acquire the right to buy or sell the Underlying Futures Contract and, since Holders do not need to maintain margins, they have no further financial obligation. Writers of options, on the other hand, have accepted a Premium in return for taking on the obligation to buy or sell the Underlying Futures Contract and, therefore, must maintain margins at rates set by the Commodity Futures Exchange or at such higher rates as may be required by the dealer. In addition, Writers of options may be required to pay additional margin in the event of adverse market movement.

The margin requirements of the various Commodity Futures Exchanges may differ significantly. In addition, they are subject to change at any time, and such changes may even apply retroactively to options positions previously established.

Before you consider selling or writing a Commodity Futures Option, therefore, you should ask your dealer for information on specific margin requirements and assure yourself that you have sufficient available capital to meet increases in margin requirements, should such increases occur.

EXERCISING COMMODITY FUTURES OPTIONS

At any time on or before the Expiration Date of a Commodity Futures Option, the Holder may exercise the option and assume a long position (in case of a Call Option) or a short position (in case of a Put Option) in the Underlying Futures Contract at the stated Exercise price. In order to do so, the Holder notifies his dealer

who, in turn, deposits an exercise notice with the clearing house. The Holder of an option should ascertain from his dealer what advance notice is required to enable the dealer to deposit the required exercise notice with the clearing house on or before the Expiration Date. The clearing house forwards this notice to a clearing member who has a short position in that particular option and who is selected in accordance with clearing house rules. Such clearing member then selects, in accordance with its own rules, a particular Writer who must then sell (in case of a Call Option) or buy (in case of a Put Option) the Underlying Futures Contract.

Both the Holder and the Writer of the option assume a long or short position, as the case may be, in the underlying Futures Contract, and both will be subject to the margin requirements for and all of the risks associated with futures contracts trading, unless they already hold an opposite long or short position in the Underlying Futures Contract in which case there would be an automatic offset.

Having acquired a position (whether long or short) in the Underlying Futures Contract, the Holder or the Writer may become obligated to make or take delivery, as the case may be, of the commodity represented thereby unless before the delivery month provided for in the futures contract, they elect to offset their position by buying or selling the same futures contract with the same delivery month. In that event, they will be obligated to pay their respective dealers a "round-turn" commission. If, on the other hand, they elect to make or take delivery of the underlying commodity, they may be required to pay additional costs incidental to the delivery process. In the meantime, as long as the Holder or the Writer maintains his position in the Underlying Futures Contract, he will be required to maintain margin deposit at rates set by the Commodity Futures Exchange or at such higher rates as the dealer may require.

EXPIRATION DATE OF COMMODITY FUTURES OPTIONS

The Expiration Date of a Commodity Futures Option is the last day on which the Holder can exercise his option by purchasing (in case of a Call Option) or selling (in case of a Put Option) the Underlying Futures Contract at the stated Exercise Price. If the Holder does not wish to exercise his option but believes that it would be profitable for him to effect an offsetting transaction, he should advise his dealer well in advance of the last trading day for that particular option so that the dealer will have sufficient time within which to execute his order. Similarly, if the Writer believes that it would be profitable for him to effect an offsetting

transaction, he should give instructions to his dealer well ahead of the last trading day.

The last day of trading for a Commodity Futures Option is usually the date prior to the Expiration Date. Both the last day of trading and the Expiration Date are indicated on the contract specifications for each Commodity Futures Option, and they often vary among the different options. You should always inform yourself about these terms of an option and, in particular, you should determine your dealer's policy with respect to the cut-off date prior to the last day of trading for each option during which they would accept orders to execute offsetting transactions. These cut-off dates are important, especially if you are considering offsetting your option position at a time close to the Expiration Date. If you miss the cut-off date established by your dealer, it might be extremely difficult for you to liquidate your position.

If the Holder chooses not to exercise his option or if, for some reason, he is unable to effect an offsetting transaction, the option will lapse on the Expiration Date and the Holder loses his right under the option. In that event, the Writer's obligation under the option is terminated.

CLEARING

In order to assure the performance of obligations under Commodity Futures Options, traders on the Commodity Futures Exchanges are required to use the facilities of the appropriate clearing house to which all trades in options are reported daily following the close of each trading session and are marked to the market for daily cash settlement. Members of the clearing house are also members of the corresponding Commodity Futures Exchange, but not all members of the exchange are clearing members.

When an option trade has been cleared with the clearing house, the contractual ties between the original Holder and the Writer of the option are severed. The clearing house becomes the principal liable to each clearing member who is party to such trade. Clearing members are themselves contractually obligated to the clearing house vis-à-vis the Holders or Writers they represent. Accordingly, the aggregate obligations of the clearing house to clearing members who represent Holders of options are balanced by the aggregate obligations which clearing members who represent Writers of options owe to the clearing house.

CURRENCY

Whether you plan to buy or sell a Commodity Futures Option, you should realize that some transac-

tions are carried out in foreign currencies. Accordingly, if you are using Canadian Dollars in your transactions, you are exposed to the risks arising from the price fluctuations of foreign currencies in the foreign exchange market.

COMMISSION AND OTHER TRANSACTION COSTS

As the Holder of a Commodity Futures Option, in addition to the Premium that you pay for acquiring the option, you will pay commission to the dealer who purchased the option for you. If you offset your position through a closing sale transaction, you pay another commission. If you exercise your option and assume an opening long (in case of a Call Option) or short (in case of a Put Option) position in the Underlying Futures Contract, you will not be required to pay commission. However, when you subsequently close out your position in the Underlying Futures Contract, then you will pay your dealer a "round-turn" commission.

As the Writer of a Commodity Futures Option, you only pay commission to the dealer who sold the option for you. If you offset your position through a closing purchase transaction, you pay another commission. If the option is exercised against you and you assume an opening short (in case of a Call Option) or long (in case of a Put Option) position in the Underlying Futures Contract, you will not be required to pay commission. However, when you subsequently close out your position in the Underlying Futures Contract, you will then pay your dealer a "round-turn" commission.

Commission rates vary among different dealers. In addition, there may be other charges and fees involved in each option transaction apart from the commission. You should ask your dealer about all the costs that may be incurred in options transactions and take them into account in considering whether or not to trade Commodity Futures Options.

EXCHANGE AND CLEARING HOUSE

The Commodity Futures Options described in this Disclosure Statement are traded on Commodity Futures Exchanges which are regulated by the appropriate government agency under whose jurisdiction they are operating as such. Each exchange has its own Commodity Futures Option listed for trading on its auction market by its own members. Each exchange has by-laws and rules that regulate the trading of its own option for the maintenance of a fair and orderly market and for the protection of clients against fraudulent or wrongful activities of its members. Such rules may establish

position and exercise limits and reporting requirements to prevent an imbalance in the market from arising. They may also require the broad dissemination of price and volume information in order to keep the public reasonably informed of trading activities with respect to particular Commodity Futures Options. All these exchanges require compliance with their by-laws and rules as a condition for membership or continuing membership.

Each exchange also has its own clearing corporation to which all trades in their respective Commodity Futures Options are reported daily and matched to ensure that for each option purchased, there is a corresponding seller on the other side of the market. The clearing corporation facilitates settlement of obligations arising from each option transaction. Each clearing corporation, therefore, has its own rules designed for the orderly settlement of option trades.

The rules and regulations of the Exchange and their respective clearing houses vary from one another. They may also be changed from time to time, and such changes may even be given retroactive effect.

Before you decide to trade Commodity Futures Options, you should ask your dealer about these matters because they can have a profound effect on your options transactions.

CONTRACT SPECIFICATIONS

Each Commodity Futures Exchange fixes the terms and conditions of its Commodity Futures Option. These terms may include such items as trading units, permissible price fluctuations, exercise prices, expiration dates, last day of trading, daily price limits, etc. Again, bear in mind that these terms vary among the different Commodity Futures Options, and they may even be changed from time to time without notice. You should study these specifications carefully before you decide to trade Commodity Futures Options.

TAX CONSEQUENCES

The income tax consequences of trading in Options are dependant upon the nature of the business activities of the investor and the transaction in question. Investors are urged to consult their own professional advisers to determine the consequences applicable to their particular circumstances.

ADDITIONAL INFORMATION

Before buying or selling an Option an investor should discuss with his broker:

54. The French version of this regulation is amended by replacing paragraph 3 of Item 13 of Schedule X by the following:

“3° lorsque l'émetteur a acquis au cours des deux dernières années ou doit acquérir un élément d'actif d'un promoteur, indiquer le prix d'acquisition et la méthode de détermination du prix. Identifier la personne qui a établi ce prix et indiquer, le cas échéant, la relation de cette personne avec l'émetteur ou le promoteur. Indiquer le coût et la date d'acquisition par le promoteur de cet élément d'actif.”

55. This regulation is amended by replacing Item 3 of Schedule XI by the following:

“Item 3:

Ownership of securities of the offeree

1. Provide the number, the percentage and description of the securities of the offeree held by the following persons at the date of the offer:

- (1) the offeror;
- (2) a joint actor with the offeror, if known;
- (3) a senior executive of the offeror and his associates;
- (4) a person who holds securities of the offeror conferring more than 10 % of the voting rights attached to a class of voting securities.

If no securities are held, so state.

2. Where the information is known to the offeror, give, for each class of securities subject to the bid, the number of securities held by each holder of more than 10 % of the securities of that class. If the securities are held in the name of a clearing corporation, state that they are held in the name of many holders.”

56. This regulation is amended by replacing the last sentence of the last paragraph of Item 4 of Schedule XI by the following:

“If no securities have been acquired or sold, so state.”

57. This regulation is amended by inserting, after Item 6 of Schedule XI, the following:

“Item 6.1:

Solicitation

Give the name of any person employed or paid by the offeror or his agent to solicit the tendering of securities in response to the offer.”

58. This regulation is amended by replacing Item 7 of Schedule XI by the following:

“Item 7:

Right to withdraw deposited securities

Describe the withdrawal right of the security holders of the offeree issuer who have deposited their securities under the bid. State that the withdrawal is made by sending a written notice to the depositary and becomes effective upon its receipt by the depositary.”

59. This regulation is amended by replacing paragraph 1 of Item 9 of Schedule XI by the following:

“(1) the principal market or markets where the securities are traded, with an indication, as the case may be, of the intention of the offeror to change the principal market or of listing the securities on a stock exchange or delisting them;”

60. This regulation is amended by replacing the last sentence of paragraph 1 of Item 15 of Schedule XI by the following:

“It must also indicate the extent to which any advantage accruing to a security holder after completion of the take-over bid has been considered in the valuation.”

61. The English version of this regulation is amended by replacing Item 16 of Schedule XI by the following:

“Item 16:

Rights of appraisal and acquisition

State any right of appraisal that holders of securities of the offeree issuer may have under the laws governing it. State whether the offeror intends to exercise any rights of acquisition of securities of the offeree that the offeror may have.”

62. This regulation is amended by replacing Item 19 of Schedule XI by the following:

“Item 19:

Judicial developments

Where the take-over bid is an insider bid or where the offeror anticipates that a going private transaction will follow the take-over bid, give a brief description of its relevance to recent legal development, if any, relating to the type of proposed transaction.”

63. This regulation is amended by replacing the first paragraph of Item 4 of Schedule XII by the following:

"Provide the number, the percentage and the designation of the securities of the offeree held by the following persons on the date of the bid:".

64. This regulation is amended by replacing the first paragraph of Item 6 of Schedule XII by the following:

"When a bid is made by an issuer or on his behalf, provide the number, the percentage and the designation of the offeror's securities held by the following persons on the date of the bid:".

65. The English version of this regulation is amended by replacing paragraph (1) of Item 6 of Schedule XII by the following:

"(1) a senior executive of the offeree and his associates;".

66. This regulation is amended by inserting, after Item 7 of Schedule XII, the following items:

"Item 7.1:

Agreement between the offeree and its senior executives

Give the detail of any agreement entered into or proposed between the offeree and its senior executives in regard to any payment or other benefit granted as indemnity for the loss of their positions or in regard to their retaining or losing their positions if the bid is accepted.

"Item 7.2:

Response of offeree issuer

Describe any transaction, board resolution, agreement in principle or signed contracts in response to tender offer. State whether or not the offeree issuer has undertaken any negotiations which relate to or would result in one of the following:

(1) an extraordinary transaction such as a merger or reorganization involving the offeree company or one of its subsidiaries;

(2) the purchase, sale or transfer of a material amount of assets of the offeree company or of one of its subsidiaries;

(3) the acquisition, by way of a tender offer of its own securities or of those of an other company;

(4) any material change in the present capitalization or dividend policy of the offeree company.

Disclose negotiations underway, without giving details if there has been no agreement in principle."

67. The English version of this regulation is amended by replacing paragraph (2) of Item 8 of Schedule XII by the following:

"(2) an associate of a senior executive of the offeree;".

68. This regulation is amended by the addition at the end of Item 9 of Schedule XII the following sentence:

"If no securities are held, so state."

69. This regulation is amended by inserting, after Item 9 of Schedule XII, the following item:

"Item 9.1:

Securities issued to senior executives

Provide details of securities of the offeree issued to senior executives in the last two years. Securities covered are those subject to the bid or convertible into those securities."

70. This regulation is amended by deleting the second paragraph of Item 12 of Schedule XII.

71. This regulation is amended by replacing the last sentence of paragraph 1 of Item 14.1 of Schedule XII by the following:

"It must also indicate the extent to which any advantage accruing to a security holder after completion of the take-over bid has been considered in the valuation."

72. This regulation is amended by replacing Item 6 of Schedule XIII by the following:

"Item 6:

Ownership of the securities of the offeror

When a bid is made by an issuer or on his behalf, provide the number, the percentage and the description of the securities of the offeror held by the senior executive and by his associates. If no securities are held, so state."

73. This regulation is amended by deleting Item 13.1 of Schedule XIII.

74. This regulation is amended by replacing Item 7 of Schedule XIV by the following:

"Item 7:

Right to withdraw deposited securities

Describe the withdrawal right of the security holders of the offeree issuer who have deposited their securities under the bid. State that the withdrawal is made by

sending a written notice to the depositary and becomes effective upon its receipt by the depositary.”.

75. This regulation is amended by replacing Item 10 of Schedule XIV by the following:

“State the purpose and business reasons for the issuer bid, and if it is anticipated that the issuer bid will be followed by a going private transaction, describe the proposed transaction.”.

76. This regulation is amended by replacing Item 11 of Schedule XIV by the following:

“Furnish, where reasonably ascertainable, the following information concerning trading in securities of the class to be acquired:

(1) the name of each stock exchange or other principal market on which the securities sought are traded;

(2) in reasonable detail for the 12 months preceding the date of the issuer bid, the volume of trading and price range of the class of securities sought, or in the case of debt securities the prices quoted, on each principal market;

(3) the date that the issuer bid to which the circular relates was announced to the public and the market price of the securities of the issuer immediately before such announcement.

Indicate any change in a principal market or markets that is planned following the bid.”.

77. This regulation is amended by replacing the first paragraph of Item 12 of Schedule XIV by the following:

“State the number, the percentage and the designation of any securities of the issuer beneficially owned or over which control or direction is exercised at the date of the bid by:”.

78. This regulation is amended by the addition in Item 15 of Schedule XIV of the following paragraph:

“Mention whether or not the offeror plans to delist the shares.”.

79. This regulation is amended by replacing Item 19 of Schedule XIV by the following:

“If the bid is made more than 10 days after the end of one of the first three quarters referred to in section 78 of the Act, and if the quarterly financial statements have not been delivered to security holders of the issuer, include the quarterly financial statements and, in all other cases, include a statement that the most recent

quarterly financial statements will be sent without charge to anyone requesting them.”.

80. This regulation is amended by replacing the last sentence of paragraph 1 of Item 20 of Schedule XIV by the following:

“It must also indicate the extent to which any advantage accruing to a security holder after completion of the take-over bid has been considered in the valuation.”.

81. This regulation is amended by replacing Item 20.1 of Schedule XIV by the following:

“Item 20.1

Judicial developments

Give a brief description of the relevance of recent legal development, if any, relating to the type of proposed transaction.”.

82. This regulation is amended by inserting after Item 26 of Schedule XIV the following item:

“Item 26.1:

Solicitations

Give the name of any person or company employed or paid by the issuer or his agent to make solicitations in respect of the bid.”.

83. The English version of this regulation is amended by replacing, in Item 1 of Schedule XV, the figure “202” by “212”.

84. The English version of this regulation is amended by replacing, in Item 1 of Schedule XVI, the note under the table by the following:

“* Applicable only in the case of a registered dealer. In the case of another person the remuneration is not allowed (section 48 of the Act).”.

85. This regulation will come into force on June 4, 1987.

3741