

**IN THE MATTER OF THE SECURITIES ACT,
R.S.N. 1990, CHAPTER S-13, AS AMENDED (the "Act")**

AND

**IN THE MATTER OF
THE RECOGNIZED OPTIONS RATIONALIZATION ORDER**

**BLANKET ORDER
(Section 75 AND Section 144)**

WHEREAS there is in effect an Order (the "Reorganized Options Rationalization Order") wherein the Director of Securities (the "Director") pursuant to the powers conferred on the Director by section 146 of the Act (formerly, the Registrar of Deeds, Companies and Securities) ruled that trades in Recognized Options cleared through Recognized Clearing Organizations (as defined in the Recognized Options Rationalization Order) are not subject to sections 26 or 54 of the Act, subject to the conditions therein set forth;

AND WHEREAS the Recognized Options Rationalization Order has been amended on various occasions;

AND WHEREAS an application has been forwarded from certain interested parties to have capped index options, capped stock options and capped international index options (collectively, "CIOs") included in the Recognized Options Rationalization Order;

AND WHEREAS it has been represented to the Director that:

- a. the options which are currently Recognized Options may be exercised at any time before their expiration in the case of American-style options or only on a specified date in the case of European-style options;
- b. the settlement features of CIOs represent a different "style of option" in that CIOs are automatically exercised if, as determined by the exchange on which CIOs are traded, the "exercise settlement value" for CIOs on any trading day equals or exceeds (in the case of a call) or equals or is less than (in the case of a put) the "cap price" for the CIOs. Holders of CIOs also have the right, like holders of European-style options, to exercise CIOs during a specified period immediately prior to the expiration of the CIOs. Other specifications of CIOs (contract size, exercise price, expiration date, cap price, time of day at which the option settlement price is determined, etc.) are fixed by the market on which the CIOs trade; and
- c. CIOs and the various terms used to describe CIOs are fully described in the supplemental disclosure document for CIOs (the "CIO Disclosure Document") and which, pursuant to this Order, will be distributed by Recognized Dealers to customers prior to the making of trades in CIOs;

AND WHEREAS the Director has no objection to the inclusion of CIOs in the list of Recognized Options;

AND WHEREAS it is desirable to make a definitive and comprehensive version of the Recognized Options Rationalization Order, incorporating all the amendments made thereto and including CIOs in the list of Recognized Options;

AND WHEREAS the Director is of the opinion that to grant this Order would not be prejudicial to the public interest;

IT IS ORDERED THAT:

- (a) Section 54 of the Act shall not apply to trades in Recognized Options cleared through Recognized Clearing Organizations provided that prior to the making of any such trades by a Recognized Dealer (as hereinafter defined) with a customer, such Recognized Dealer shall have sent by prepaid mail or shall have delivered to the customer a copy of the Disclosure Statement for Recognized Market Options approved by the Director for use by the Recognized Clearing Organizations, a copy of which is attached hereto as Schedule "A" and where the trade is in capped index options, capped stock index options and capped international index options, a copy of the CIO Disclosure Document approved by the for use by the Recognized Clearing Organizations, a copy of which is attached hereto as Schedule "B";
- (b) For the purposes of this Order, the following are Recognized Clearing Organizations:
 - (i) Trans Canada Options Inc. ("TCO")
 - (ii) International Options Clearing Corporation ("IOCC");
 - (iii) The Options Clearing Corporation ("OCC"); and
 - (iv) The Intermarket Clearing Corporation ("ICC");
- (c) For the purposes of this Order, the following are Recognized Options:
 - (i) equity options currently or in the future traded on one or more of the Toronto Stock Exchange (the "TSE"), the Montreal Exchange (the "ME") and the Vancouver Stock Exchange (the "VSE") and cleared through TCO;
 - (ii) debt options and index options currently traded on one or more of the TSE, the ME and the VSE and cleared through TCO;
 - (iii) debt options and precious metal options currently traded on The Toronto Futures Exchange (the "TFE") and cleared through TCO;

- (iv) Precious metal options and currency options currently traded on one or more of the ME, the VSE, the European Options Exchange (the "EOE") and the Australian Stock Exchange (Sydney) and cleared through IOCC; and
- (v) equity options, debt options, currency options, index options, stock index options, international index options, capped index options, capped stock index options and capped international index options, Eurodollar time deposit options and gold bullion options currently or in the future traded on one or more of the American Stock Exchange, the Chicago Board Options Exchange, the New York Stock Exchange, the Pacific Stock Exchange, the Amex Commodities Corporation, the Philadelphia Stock Exchange, the Philadelphia Board of Trade, the EOE, and the automated quotation system of the National Association of Securities Dealers and cleared through OCC or ICC;

provided that any Recognized Option shall cease to be a Recognized Option if a material change shall be made in the contract specifications to such option which the Director, refuses to accept within ten (10) business days of the filing with the Director of notice of the material change;

- (d) Any additional option traded or to be traded on a market and cleared through a Recognized Clearing Organization shall become a Recognized Option for the purposes of this Order if the Director has not informed the Recognized Clearing Organization in writing, within ten (10) business days of the filing with the Director of the contract specifications for that additional option, that the Director refuses to accept the additional option as a Recognized Option for the purposes of this Order;
- (e) A clearing organization may be recognized by the Director as a Recognized Clearing Organization for the purposes of this Order upon the application to the Director by such clearing organization;
- (f) Section 26 of the Act shall not apply to trades in Recognized Options, other than Recognized Options on equities and on other securities for which registration for trading such underlying securities is generally required under the Act, provided that trades are effected through Recognized Dealers;
- (g) Section 26 of the Act shall not apply to advice given with respect to Recognized Options, other than Recognized Options on equities and on other securities for which registration for trading such underlying securities is generally required under the Act, provided that advice is given through a registered adviser under either the Act or through a person or company for whom registration as an adviser is not required to be obtained under the Act;
- (h) Any person trading in and/or rendering advice with respect to Recognized Options, other than Recognized Options on equities and on other securities for which registration for trading such underlying securities is generally required under the Act, as a salesman, partner or officer of a dealer registered under the Act or as an adviser in the category of investment

counsel and portfolio manager registered under the Act:

- (i) shall be registered in that capacity under the Act; and
 - (ii) shall have successfully completed the Canadian Options Course or there shall have been filed no later than November 30, 1984, with the Director a letter from such dealer or such adviser listing such person as having experience in trading options (whether exchange traded or otherwise);
- (i) For the purposes of this Order, the following are Recognized Dealers:
- (i) dealers who are registered under the Act, and who are members of a Recognized Self-regulatory Organization (as hereinafter defined);
 - (ii) persons or companies who are members of a Recognized Self-Regulatory Organization which is a market, and who are subject to the rules and by-laws of that market which have been non-disapproved by the Director provided that such persons or companies are effecting trades in Recognized Options solely on behalf of hedgers (as hereinafter defined); and
 - (iii) with respect to options traded on the TFE and cleared through TCO, persons or companies who are Restricted Trader Members or who are Unrestricted Trader Members of the TFE, as defined in the By-laws of the TFE, acting in accordance with the By-laws of the TFE;
- (j) For the purposes of this Order, a hedger is:
- a person or company who carries on agricultural, mining, forestry, processing, manufacturing or other commercial activities and, as a necessary part of these activities, becomes exposed from time to time to a risk attendant upon fluctuations in the price of an underlying interest and offsets that risk through trading in options for the underlying interest or related underlying interests whether or not any particular trade is effected for that purpose, but a person or company is a hedger only as to trades in options for such underlying interest or related underlying interests;
- (k) For the purposes of this Order, the following are Recognized Self-Regulatory Organizations:
- (i) The Alberta Stock Exchange (the "ASE");
 - (ii) the TSE;
 - (iii) the TFE;
 - (iv) the ME, including the International Options Market and Mercantile Division;

- (v) the VSE;
- (vi) The Winnipeg Commodity Exchange (the "WCE"); and
- (vii) the Investment Dealers Association of Canada;
- (l) Persons who are not members of a Recognized Self-Regulatory Organization may, with the consent of the Recognized Self-Regulatory Organization, be recognized in writing by the Director as deemed members of that Recognized Self-Regulatory Organization for the purposes of this Order;
- (m) A Recognized Clearing Organization may appeal any decision of the Director under this Order to a judge of the Trial Division of the Supreme Court of Newfoundland;
- (n) the Recognized Clearing Organizations shall provide to the Director:
 - (i) within 150 days of the end of their respective fiscal years, their respective audited financial information for the most recent fiscal year then ended;
 - (ii) forthwith, and in any event within five (5) days of the approval of a material change to the specifications of any Recognized Option by the governing body of the Recognized Clearing Organization, details of such material change to the specifications of any Recognized Option; and
 - (ii) forthwith, and in any event within five (5) days of the occurrence of a material change to information previously provided to the Director respecting incorporation, principal or registered office, officers, directors, and shareholders, details of said material change;
- (o) This Order may be known as the Recognized Options Rationalization Order.

DATED at St. John's, Newfoundland, this 5th day of November, 1992.

GEORGE F. KENNEDY
Director of Securities