



CIRCULAR 053-22

May 6, 2022

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. FOR POSITION LIMITS OF NARROW BASED INDEX FUTURES CONTRACTS

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) and the Special Committee of the Regulatory Division of the Bourse approved amendments of the Rules of the Bourse in order to modify the position limits of narrow-based index futures contracts and allow position limits defined on a per product basis as opposed to the current fixed level of 20,000 contracts.

Comments on the proposed amendments must be submitted at the latest on **JUNE 6, 2022**. Please submit your comments to:

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A copy of these comments shall also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^e Philippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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Québec (Québec) G1V 5C1
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E-mail: consultation-en-cours@lautorite.qc.ca

Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file. Unless specified otherwise, comments will be published anonymously by the Bourse.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

Process for Changes to the Rules

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization ("**SRO**") by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the "**Division**"). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

The Division is under the authority of a Special Committee (the "**Special Committee**") appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



**AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. FOR POSITION LIMITS OF
NARROW BASED INDEX FUTURES CONTRACTS**

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I. DESCRIPTION

Bourse de Montréal Inc. (the “Bourse”) is proposing to amend the rules pertaining to the position limit of narrow-based index Futures Contracts and allow position limits defined on a per product basis as opposed to the current fixed level of 20,000 contracts. Therefore, the Bourse proposes to modify the position limits of the existing sector index Futures (the “Contracts”):

- 1) S&P/TSX Global Gold Index (SXA)
- 2) S&P/TSX Capped Financials Index (SXB)
- 3) S&P/TSX Capped Information Technology Index (SXH)
- 4) S&P/TSX Capped Energy Index (SXY)
- 5) S&P/TSX Composite Index Banks (Industry Group) (SXX)
- 6) S&P/TSX Capped Utilities Index (SXU)

II. PROPOSED AMENDMENTS

The Bourse proposes to amend paragraph 6.309B(d), which states; “The maximum net Long Position or net Short Position in all Settlement Months combined in a designated narrow-based index Futures Contracts which a Person may own or control is 20,000 contracts.” so that it indicates instead:

“The maximum net Long Position or net Short Position in all Settlement Months combined in a designated narrow-based index Futures Contracts which a Person may own or control is 20,000 contracts unless a different position limit is set in the Rules.”

Rule amendments are therefore required for the imposition of a different position limit for the Contracts under Articles 12.707, 12.807, 12.907, 12.1007, 12.1107, 12.1207 as further described below.

III. ANALYSIS

A. Background

The current position limits are set at 20,000 contracts for narrow-based Futures Contracts as per the Bourse’s rules. Considering that the notional value of an index futures contract differs depending on the specifications and characteristics of its underlying index and multiplier, static position limits are limiting as they are not tailored to these variations of exposure to the underlying.

Position limits are meant to prevent market manipulation by a single or multiple participant(s). For example, a participant holding a large proportion of the open interest in a futures contract may cause concentration risk and lead to market manipulation. Since these sector index futures are cash-settled at maturity (meaning that the holder of the contract will receive cash as opposed to units in the actual indices), these index futures contracts cannot be used to increase ownership in their underlying constituents.

Position limits could serve in the case where concentration risk might arise in the underlying cash market following large transactions by participants holding significant open interest to hedge their positions. In that case, the position limits proposed for the sector index futures ensure that even if a participant reaches the position limit, the corresponding market exposure in the underlying cash market would not represent a significant concentration of ownership of the underlying securities based on the market capitalization of each of the underlying securities of the index (e.g., in 2021, the higher percentage of market exposure of the underlying securities for each index ranged from 4% to 1%).

Therefore, the Bourse proposes to set the position limit for narrow-based index futures on a per-product basis rather than a fixed level applicable to all. As such, the Bourse proposes to set the limits at the levels indicated in Table 1. These limits will apply to the maximum net long position or net short position in all contract months combined. Based on the index levels (as of December 31, 2021), the tables below contain the notional value for each sector index future based on the position limits.

Table 1: Position Limits for Sector Index Futures

Sector Index Future Description	Index level on Dec 31, 2021	Multiplier	Position limit	Notional value as per position limits
S&P/TSX Global Gold Index Future	292	200	70,000	\$4,087,860,000
S&P/TSX Capped Financials Index Future	403	200	50,000	\$4,031,200,000
S&P/TSX Capped Information Technology Index Future	212	500	40,000	\$4,245,000,000
S&P/TSX Composite Index Banks (Industry Group) Future	4,418	20	50,000	\$4,418,270,000
S&P/TSX Capped Utilities Index Future	343	200	60,000	\$4,120,320,000
S&P/TSX Capped Energy Index Future	164	200	130,000	\$4,258,540,000

A benchmarking exercise comparing position limits set at five exchanges, the Taiwan Futures Exchange (TAIFEX), the Hong Kong Exchange (HKEX), ASX, Eurex and CME Group was completed on December 31, 2021 and the results are reflected in the table below:

Table 2: Position Limits Benchmark

Exchange Name	Product	Position limits/ Notionals
TAIFEX	Electronic Sector Index Futures	3,000 / \$486M
	Finance & Insurance Sector Index Futures	3,000 / \$238M
	Non-Finance Non-Electronics Sector Index Futures	3,000 / \$238M
HKEX	Hang Seng Mainland Properties Index Futures	5,000 / \$169M
	Hang Seng Mainland Banks Index Futures	15,000 / \$334M
	Hang Seng Mainland Oil & Gas Index Futures	15,000 / \$144M
CME	S&P e-mini Energy	25,000 / \$1,8B
	S&P e-mini Financials	25,000 / \$3,8B
	S&P e-mini Technology	25,000 / \$5,5B
	S&P e-mini Consumer Discretionary	25,000 / \$6,5B

Note: *TAIFEX segregates its position limits by participant type, only the "Institutional" participant's position limit is what is reflected in this table.

The results reflect important ranges among the different exchanges. While Asian exchanges have lower position limits, ASX¹ and Eurex² deemed it unnecessary to impose position limits for equity index futures.

B. Analysis of Impacts

i. Impacts on Markets

The proposed amendments will have no direct impact on the derivatives markets, other than to provide a more tailored and consistent approach to the Bourse's rules regarding position limits of sector index futures as a whole, considering a new methodology will be introduced with the launch of additional sector index futures in the second quarter of this year.

ii. Impacts on Technology

None of the proposed amendments will have any impact on the Bourse's technological systems or those of its Approved Participants.

¹ As indicated under Procedure 3400 in the [ASX Operating Rules Procedures](#)

² As indicated in <https://www.eurex.com/ex-en/data/trading-files/position-limits>

iii. Impacts on Regulatory Functions

The proposed changes should have a minimal impact on the surveillance activities of the Regulatory Division of the Bourse. Procedures will have to be updated and parameters adjusted in the surveillance system to reflect the new position limits.

iv. Public Interest

The Bourse is of the view that the proposed amendments are not contrary to the public interest.

IV. PROCESS

The proposed amendments are subject to the approval of the Special Committee of the Regulatory Division of the Bourse and of the Rules and Policies Committee of the Bourse. They will also be submitted to the Autorité des marchés financiers in accordance with the self-certification procedure and to the Ontario Securities Commission for information purposes.

V. ATTACHED DOCUMENTS

APPENDIX 1: Proposed amendments to the Rules of the Bourse

APPENDIX 1
AMENDED VERSION

PART 6 - TRADING RULES

Chapter D—Listed Products

Article 6.309B Position Limits for Futures Contracts

Except as otherwise indicated and except for Share Futures Contracts, the applicable position limits for Futures Contracts are as follows:

[...]

(d) Narrow-based index Futures:

The maximum net Long Position or net Short Position in all Settlement Months combined in a designated narrow-based index Futures Contracts which a Person may own or control is 20,000 contracts unless a different position limit is set in the Rules.

[...]

Article 12.707 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P/TSX Global Gold Index Futures which a person may own or control is 70,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client. The position limit for S&P/TSX Global Gold Index Futures, if any, is set pursuant to Article 6.309B.

[...]

Article 12.807 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Financials Index Futures which a person may own or control is 50,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client. The position limit for S&P Capped Financials Index Futures, if any, is set pursuant to Article 6.309B.

[...]

Article 12.907 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Information Technology Index Futures which a person may own or control is 40,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client. The position limit for S&P Capped Information Technology Index Futures, if any, is set pursuant to Article 6.309B.

[...]

Article 12.1007 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Energy Index Futures which a person may own or control is 130,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client. The position limit for S&P Capped Energy Index Futures, if any, is set pursuant to Article 6.309B.

[...]

Article 12.1107 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Composite Index Banks (Industry Group) Futures which a person may own or control is 50,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client. The position limit for S&P Composite Index Banks (Industry Group) Futures, if any, is set pursuant to Article 6.309B.

[...]

Article 12.1207 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Utilities Index Futures which a person may own or control is 60,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client. The position limit for S&P Capped Utilities Index Futures, if any, is set pursuant to Article 6.309B.

[...]

APPENDIX 1
CLEAN VERSION

PART 6 - TRADING RULES

Chapter D—Listed Products

Article 6.309B Position Limits for Futures Contracts

Except as otherwise indicated and except for Share Futures Contracts, the applicable position limits for Futures Contracts are as follows:

[...]

(d) Narrow-based index Futures:

The maximum net Long Position or net Short Position in all Settlement Months combined in a designated narrow-based index Futures Contracts which a Person may own or control is 20,000 contracts unless a different position limit is set in the Rules.

[...]

Article 12.707 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P/TSX Global Gold Index Futures which a person may own or control is 70,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client. [...]

Article 12.807 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Financials Index Futures which a person may own or control is 50,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client.

[...]

Article 12.907 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Information Technology Index Futures which a person may own or control is 40,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client.

[...]

Article 12.1007 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Energy Index Futures which a person may own or control is 130,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client.

[...]

Article 12.1107 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Composite Index Banks (Industry Group) Futures which a person may own or control is 50,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client.

[...]

Article 12.1207 Position Limits

The maximum net Long Position or net Short Position in all contract months combined in Futures Contracts on the S&P Capped Utilities Index Futures which a person may own or control is 60,000 contracts.

If deemed necessary, the Bourse may apply a different position limit to an approved participant or its client.

[...]