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CIRCULAR
May 19, 2010

Circular no. 069-10

SELF-CERTIFICATION

**MODIFICATIONS TO THE TERMS OF
POSITION LIMITS FOR OPTIONS**

**AMENDMENTS TO ARTICLES 6651, 6652 AND 6653 OF
RULE SIX OF BOURSE DE MONTRÉAL INC.**

On November 26 2009, the Bourse issued a circular (179-2009) regarding a request for comments on modifications to the terms of position limits on options. The Bourse proposed to amend Article 6651 of Rule Six (Position Limits) in order to include explicitly options on exchange-traded funds (or ETF) and on income trust units together with equity options.

The Bourse also proposed to amend article 6651 of Rule Six in order to:

- 1) Add new acceptable hedging transactions and positions: collars, reverse collars and box spreads. These transactions would have been added to the actual list of eligible transactions in the Rules of the Bourse (conversions, reverse conversions, long and short hedges) and would have been subject to conditions similar to those established on the U.S. markets.
- 2) Allow the use of OTC options to execute a hedging strategy as it is allowed on the U.S. markets.
- 3) Eliminate any position limit on eligible hedging transactions, except for a box spread where the limit would have been set at five times the regular limit.
- 4) Apply a limit of five (5) times the standard position limit when a position on an exchange-listed option is covered by a position on an over-the-counter option having the same underlying interest.
- 5) Allow the Bourse to increase the position limits to 300,000 contracts on selected ETF options (e.g.: XIU, XFN, XEG and XGD) when the trading activity and interest in these options justify such an increase.

Moreover, the Bourse proposed to clarify the text of Article 6653 of Rule Six stipulating that, in the case of an underlying interest split, the Bourse will increase temporarily the position limit on existing option series until the expiry of the farthest listed contract month, and this, despite the fact that this new position limit may exceed the maximum position limit prescribed by the Bourse in Article 6651.

Lastly, housekeeping amendments were also proposed throughout articles 6651, 6652 and 6653.

The Bourse wishes to advise approved participants that only the amendment mentioned in paragraph 5) above, concerning the iShares S&P/TSX 60 Index Fund (XIU), has been self-certified in accordance with the self-certification process as established in the Derivatives Act (R.S.Q., chapter I -14.01). Consequently, position limits on options on units of the iShares S&P/TSX 60 Index Fund (XIU) have been increased to 300,000 contracts.

This amendment will become effective on May 20, 2010.

All other proposed modifications are still under review and will be the subject of a future circular.

For further information, please contact Hassan Bahnini, Market Analyst, Regulatory Division at 514-871-4949 ext. 339 or by email at legal@m-x.ca.

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Section 6651 - 6670
Limits and Restrictions

6651 Position Limits

(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91, 10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, [20.05.10](#))

A) Except as provided in paragraph D) of this article, no approved participant or restricted permit holder shall make for any account in which it has an interest, or for the account of any client, an opening transaction if the approved participant or the restricted permit holder has reason to believe that as a result of such transaction the approved participant or its client, or the restricted permit holder would, acting alone or in concert with others, directly or indirectly, hold, control or be obligated with respect to a position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the position limits established by the Bourse.

B) Except otherwise indicated, the applicable position limits are as follows:

1. Stock or index participation unit options

- a) 13,500 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of this article;
- b) 22,500 contracts, where either the most recent interlisted six-month trading volume of the underlying interest totals at least 20 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 15 million shares and at least 40 million shares are currently outstanding;
- c) 31,500 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 40 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares and at least 120 million shares are currently outstanding.
- d) 60,000 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 80 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares and at least 240 million shares are currently outstanding.
- e) 75,000 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 100 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares and at least 300 million shares are currently outstanding.

[f\) 300,000 contracts for options on the following index participation units:](#)

[- units of the iShares S&P/TSX 60 Index Fund \(XIU\).](#)

2. Debt options

8,000 contracts;

3. Index options

50,000 contracts;

4. Options on futures

The number of contracts established as the position limits for the underlying futures contract.

For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.

5. Sponsored options

The position limits described above apply to sponsored options. However, these position limits must be adjusted by using an equivalent unit of trading.

When the underlying interest is traded on a market other than the Bourse, the position limits of this market apply to sponsored options by using an equivalent unit of trading.

6. Currency options

40,000 contracts when the trading unit is 10,000 units of foreign currency. The limit will be adjusted to obtain the same notional amount if the trading unit is amended or if the Bourse introduces new trading units.

C) For the purpose of this article:

1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;
2. the account of an individual member or of the holder of a restricted trading permit will not be counted with that of his clearing member unless the clearing member has an interest in the account;
3. the Exchange may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Exchange and reasonable notice shall be given of each new position limit.

D) Conversions, reverse conversions, long and short hedges

1. For the purposes of this article the following defined hedges are approved by the Exchange:
 - a) conversion: where an opening long put transaction in any option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest of the option;
 - b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the

same option class, either of which option transaction is effectively hedged by a short position in the underlying interest of the option;

- c) short hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;
 - d) long hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option.
2. In addition to the options position limits set out in paragraph B), any one account may hold an amount not exceeding the applicable paragraph B) limit of any combination of the approved hedge positions defined in sub-paragraphs D) 1. a) to D) 1. d), inclusive.
 3. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

E) Exemption

As described in Policy C-1, a member may file with the Exchange an application to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed in this article. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted. A bona fide hedger may also under certain circumstances file directly with the Exchange, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Exchange.