☒ Trading - Interest Rate Derivatives	☒ Back-office - Options
☒ Trading - Equity and Index Derivatives	☒ Technology
☒ Back-office - Futures	☒ Regulation

CIRCULAR 091-16
June 29, 2016

REQUEST FOR COMMENTS

AMENDMENTS TO RULES AND PROCEDURES OF BOURSE DE MONTREAL INC. TO ALLOW FOR THE INTRODUCTION OF SHARE FUTURES CONTRACTS

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved (i) amendments to articles 6651, 9001, 9222, 14102, 15801, 15803, 15804, 15805, 15808, 15809, 15810, and 15823 of the Rules of the Bourse and to the *Procedures for the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions* of the Bourse and (ii) the proposed introduction of new article 15801.1 in the Rules of the Bourse and of new *Procedures Applicable to the Execution of Strategies Involving Share Futures* of the Bourse, the whole in order to allow for the introduction of share futures contracts. The Special Committee of the Bourse has also approved amendments to articles 6651 and 15809 of the Rules of the Bourse pertaining to position limits applicable to share futures contracts.

Comments on the proposed amendments must be submitted within 45 days following the date of publication of this notice, at the latest on **August 15, 2016**. Please submit your comments to:

Me Sabia Chicoine
Legal Counsel, Legal Affairs, Derivatives
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Québec H4Z 1A9
Email: legal@m-x.ca

A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the "**Autorité**") to:

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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.

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).

Regulatory Amendment Process

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 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 RULES AND PROCEDURES OF BOURSE DE MONTREAL INC. TO ALLOW FOR THE INTRODUCTION OF SHARE FUTURES CONTRACTS

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I. SUMMARY

Bourse de Montréal Inc. (the "Bourse") is proposing to list for trading share futures contract (also known as ''Single Stock Futures (SSF)''). While the Rules of the Bourse contain some rules regarding share futures, this product has not traded in recent years and therefore the rules have not been kept up-to-date. The proposed changes aim to align the rules with the changes in market practices and with the evolution of the Bourse's rules since share futures last traded on the Bourse.

The Bourse hereby proposes the following amendments:

- *Ancillary rules and procedures updates*

    - Articles 6651 and 15809 regarding position limits
    - Article 9001 regarding "floating margin rate"
    - Article 9222 regarding margin requirements
    - Article 14102 describing the Large Open Position Reporting threshold
    - Procedures for the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions

- *Introduction of new procedures applicable to the execution of strategies involving share futures*

- *Standardization and update of product specifications*

II. ANALYSIS

a. Background

On January 31, 2001, the Bourse launched physically delivered futures contracts on Nortel, North America's first share futures contract. Since the offering never gained traction the contract was delisted and the product line discontinued.

On February 29, 2012, MX officially announced the introduction of a new share futures product line given renewed interest by market participants. The contracts were to be listed for trading on March 2, 2012. The day preceding the launch, it was discovered that an important external stakeholder would not be able to support the product launch and the launch was subsequently called off.

Following recent regulatory trends affecting the OTC market, the demand for Futures contracts on Canadian shares resurfaced. Further to the confirmation that the product could be supported by some of the pillar stakeholders, the Bourse has decided to list the product. However, to do so, the Bourse must revisit the rules and procedures that were implemented several years ago.

Ancillary rules and procedures updates

Rules regarding position limits, margins, floating margin rates and Large Open Position Reporting are being amended since they were not kept up-to-date during rule changes, as the product did not trade.

Introduction of new procedures applicable to the execution of strategies involving share futures

The current procedures for the execution of strategies involving futures do not allow the execution of strategies involving share futures and shares by the Market Operation Department ("MOD"). As this strategy type will not be accepted by the User-Defined Strategies ("UDS") facility, the Bourse wishes to offer to the market participants the opportunity to be assisted by the MOD in the execution of their strategies. Thus, the Bourse proposes to introduce a procedure specific to strategies involving share futures contracts, which will enable the MOD to execute strategies upon request by the participants.

Standardization and update of product specifications

Over the recent years, the Bourse amended the options, futures and options on futures contracts in order to standardize their presentation and to make corrections where applicable. As no share futures were listed at that time, the product specifications have not been amended. Since the Bourse now wishes to list share futures contracts, the specifications must be harmonized with the other products' specifications and must be updated in light of changes in market practices.

b. Description and Analysis of Market Impacts

Ancillary rules and procedures updates

<u>Position Limits:</u> To date, position limits for share futures have been treated separately from the position limits for equity options: the former is detailed in Rule 15809 while the latter has been laid out in Rule 6651.

From a theoretical point of view, it is well known from financial theory that a combination of call and put positions (long call and short put or short call and long put of the same strike price) is equivalent to a futures position (long or, respectively, short).

From a regulatory point of view, the concept of "same side of the market" used in equity options gives the same market exposure as the long or short positions in share futures (on the same equity): long calls and short puts - considered on "the same side of the market" – give the same exposure as a long position in share futures whereas short calls and long puts – again considered on "the same side of the market" – give the same exposure as a short position in share futures.

From a practical point of view, the current market trends suggest that the users of such products may take positions in both Equity Options and share futures on the same underlying equities. This possibility has been considered while reviewing the potential concentration risk in the underlying securities of Bourse's products: given that a share future and an option can be based on the same underlying, are both physically deliverable, and are the subject of a finite underlying float, it is important to consider them on an aggregate basis since a combination of the aforementioned may result in unwanted concentration.

Consequently, the Bourse considers that an option on a share and a share futures on the same underlying share are similar products from a functional and exposure point of view. In such context, position limits and reporting thresholds should apply to the two types of derivatives instruments on an aggregate basis. For aggregation purposes the aggregate quantity of options and share futures contracts held is obtained by first netting share futures contracts positions relating to the same underlying share interest and subsequently adding the net futures contracts position (net long or net short) to options positions relating to the same underlying share interest on a per side basis (whether long or short) to determine the aggregate per side quantity held; one option contract being equal to one share futures contract.

Large open position reporting threshold: Given that the Bourse is pursuing the aggregation of share futures contracts and options on the same underlying interest for position limit purposes the reporting threshold will also be based on the same concept since this will enable the Division to effectively monitor for potential breaches. As is the case with other products the reporting threshold shall be based on a gross amount. Positions in stock options and share futures on the same underlying share will be aggregated to determine if the reporting threshold has been met; In this case, one option contract is equal to one share futures contract.

Exchange for risk (EFR): The addition of Shares Futures and the related over-the-counter (OTC) derivatives on the same underlying will offer greater flexibility to the market participants in the realization of their trading strategies.

Margin requirements: Due to operational considerations, the Regulatory Division of the Bourse will be publishing a similar hedger as well as speculator value for both client account margin requirements and approved participant account capital requirements for simple positions in share futures contracts. In its present form, Rule 9 contains different calculation methodologies for client account margin requirements under article 9122 a) i) and approved participant capital requirements under article 9222 a) i); article 9222 a) i) is being modified in order to align the two methodologies. The methodology that will apply by default will be that for client accounts found under article 9122 a) i), which is considered to be the most conservative methodology of the two.

Floating Margin Rate: the amendment to the definition of floating margin rate under article 9001 is necessary to provide the Bourse the latitude to calculate the ``regulatory margin interval`` in the event that the Canadian Derivatives Clearing Corporation would not.

Introduction of new procedures applicable to the execution of strategies involving share futures

The new procedure will provide and facilitate the trading of strategies involving Shares Futures for participants. They will not be able to create strategies themselves using the UDS facility so the procedure will describe how to request MOD’s assistance for their execution.

Standardization and update of product specifications

The current contract specifications were self-certified in 2012 when the Bourse intended to relaunch the product. Since then, the Bourse has harmonized of all of its contract specifications and has incorporated them in the rules. Rule 15 needs to be updated for harmonization purposes and to reflect some updates.

c. Comparative Analysis

The only novelty that the Bourse is introducing is with regard to the aggregation of options contracts and share futures contracts on the same underlying for position limits and reporting thresholds.

Our review of foreign equity options and SSF markets has revealed that:

- There is no US exchange that lists both equity options and SSFs;
- In Europe, Euronext and EUREX list both instrument types;
- In the US, options exchanges publish position limits for equity options while SSF Exchanges publish separate position limits for SSFs, thereby allowing any participant to take maximum positions in both instrument types simultaneously;
- Euronext allows participants to take limitless positions in both instrument types;
- EUREX aggregates position limits on a given underlying across equity options and SSF.

<table>
<tr><th>LISTED PRODUCTS</th><th>US options exchanges</th><th>US SSF exchanges</th><th>Euronext</th><th>EUREX</th><th>ASX</th><th>MX (proposed)</th></tr>
<tr><td>Equity and ETF options</td><td>Yes</td><td>No</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td></tr>
<tr><td>SSFs</td><td>No</td><td>Yes</td><td>Yes</td><td>Yes</td><td>No</td><td>Yes</td></tr>
<tr><th>LIMITS</th><th>US options exchanges</th><th>US SSF exchanges</th><th>Euronext</th><th>EUREX</th><th>ASX</th><th>MX (proposed)</th></tr>
<tr><td>Equity options</td><td>Separate</td><td>Not applicable</td><td rowspan="2">Unlimited</td><td rowspan="2">Aggregated</td><td>Unlimited</td><td rowspan="2">Aggregated</td></tr>
<tr><td>SSFs</td><td>Not applicable</td><td>Separate</td><td>Not applicable</td></tr>
</table>

The international benchmarking led us to conclude that, from the point of view of range of products, the most appropriate comparable exchanges are Euronext and EUREX.

Given that it is unlike Euronext, in that the Bourse imposes position limits on its products, it concludes that EUREX is the most appropriate comparable.

d. Proposed Amendments

The Bourse proposes the following amendments:

- Under Rules 6651 and 15809, to aggregate the position limits for equity options and share futures;
- Under Rule 14102, share futures contracts and stock options on the same underlying shall be considered in the aggregate (on a gross basis) for purposes of the reporting threshold;
- Under the Procedures for the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions, allow Exchange for risk on share futures and the related over-the-counter (OTC) derivatives on the same underlying;
- Under Rule 9222, to describe that the methodology applied by default will be that for client accounts found under article 9122 a) i);
- Under Rule 9001, to amend the definition of floating margin rate;
- To introduce a new procedures applicable to the execution of strategies involving share futures;
- Under Rule 15, to standardize and update the share futures contract specifications.

III. AMENDMENT PROCESS

Adding share futures on Canadian single name stocks to the Bourse's equity derivatives offering would improve the Bourse's competitive positioning against international exchanges, particularly those in Europe and the US.

Presently, investors can only trade share futures on single name Canadian stocks through OneChicago and EUREX. The MX product line will be expanded to include share futures to complete its product offering, and provide an alternative venue for informed traders. The migration of informed traders to futures results in less asymmetry and lower trading costs in the spot market, which would make Canada's listed securities markets, both derivatives and cash, all the more appealing.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

To allow for the trading of share futures, the Bourse's technological systems will be not impacted. However, due to the physical delivery of share futures, back-office vendors must make the necessary changes to support corporate actions, special dividends, stock splits etc. The Bourse is already communicating with Independent Software Vendors and participants to ensure that all relevant changes are implemented.

V. OBJECTIVES OF THE PROPOSED ADMENDMENTS

The proposed amendments will provide the Bourse with competitive functionalities, product features and an improved risk management approach.

VI. PUBLIC INTEREST

Share futures are capital efficient and can be used in a tax efficient manner. They allow users to enter into short transactions without having to consider the uptick rule or risk getting recalled. Share futures minimize currency exposure for foreign participants. They temporarily remove risk exposure without creating immediate tax implications and are great for synthetic stock lending, benefiting pension funds and smaller dealers. Share futures also offer improved cash flow with margin far lower than on the cash market or on comparable products in the US and a cleaner hedge than options since they are a linear product with a delta of 1.0. At-the-money options have a delta of 0.5, thus creating a constant need for rebalancing.

Market participants will have a wider range of products and functionalities offering them the most appropriate and cost-effective tools for implementing their strategies. Share futures would appeal to:

- Domestic and foreign institutional users for securities lending, arbitrage with options and hedging purposes;
- Foreign institutional investors for tax or dividend motivated strategies,
- Proprietary trading desks, hedge funds, CTA's and retail investors for directional trading;
- Retail investors for leveraged equity products;

The main benefits of Share Future include:

- Capital efficiency: while one can simply buy a share and wait for it to rise, especially in the short term, it is more cash-efficient to use a Share Future to achieve the same position as the dividend is already factored into the contract's price. At the same time, participants using share futures – outright or for "pairs trading" – will benefit from lower margins than those required for similar positions in cash equities.

- Trading costs: another advantage is that futures contracts tend to be cheaper to execute than cash equities or equities options, when used to replicate a futures position.

- Shorting: share futures avoid potential administrative difficulties and higher costs experienced when selling cash stock short.

- Fiscal efficiency: dividends often attract a higher rate of taxation for foreign investors. In the case of share futures, dividends are considered in the futures value instead of being payable.

VII. EFFICIENCY

The updated product features and functionalities will facilitate trading between the equity and the equity derivatives as well as between different types of derivatives products, thereby enhancing price discovery, increasing trading book liquidity and ultimately market efficiency. The aggregation of the position limits will also protect the markets from unwanted concentrations.

VIII. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the *Autorité des marchés financiers*, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

- Proposed amendments to rules and procedures
- Proposed new procedures applicable to the execution of strategies involving share futures

6651 Position Limits for O~~o~~ptions and Share Futures Contracts
(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, 25.06.12, 12.04.13, 04.06.15, 00.00.00)

A) Except ~~as provided~~for those limits specified in ~~paragraph D) of this~~ article 6651, no ~~approved participant or restricted trading permit holder~~Approved Participant shall make, for any account in which it has an interest~~,~~ or for the account of any client, ~~an options~~a transaction in a Listed Product if the ~~approved participant or the restricted trading permit holder~~Approved Participant has reason to believe that as a result of such transaction the ~~approved participant~~Approved Participant or its client~~, or the restricted trading permit holder~~ would, acting alone or in concert with others, directly or indirectly, hold~~,~~ or control ~~or be obligated with respect to an options~~a position ~~on the same side of the market relating to the same underlying interest (whether long or short)~~ in excess of the ~~options~~ position ~~limits~~limit established by the Bourse.

B) Except otherwise indicated, the applicable position limits for options, share futures contracts or aggregated options and share futures contracts positions (as defined under paragraph C) 4)) are as follows:

1. ~~Options~~Share futures contracts, aggregated options and share futures contracts positions as well as options on stocks, exchange-traded funds or income trust units

   a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;

   b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;

   c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding;

   d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding;

   e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 100 million shares or units of the underlying interest or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares or units of the underlying interest and at least 300 million shares or units of this underlying interest are currently outstanding;

   f) 300,000 contracts for options on the following exchange-traded funds:

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

2. Debt options

   8,000 contracts.

3. Index options

   500,000 contracts.

4. Sector index options

   40,000 contracts.

5. 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.

6. 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.

7. 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, a net short share futures position, and short underlying interest are on the same side of the market and puts written, calls held, a net long share futures position, and long underlying interest are on the same side of the market;

2. the account of a restricted trading permit holder will not be counted with that of his clearing broker unless the clearing broker has an interest in the account;

3. the Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit;~~.~~

4. the "aggregated options and share futures contracts position" is obtained by first netting share futures contracts positions relating to the same underlying share interest and subsequently adding

the net futures contracts position (net long or net short) to options positions relating to the same underlying share interest on a per side basis (whether long or short) to determine the aggregate per side quantity held; one option contract being equal to one share futures contract for purposes of this calculation.

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 of options 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.

9001 Definitions

(01.01.05, 01.02.07, 30.11.15, 14.01.16, 00.00.00)

For the purpose of the present Rule:

"**approved participant account**" means all non-client accounts including firm accounts, market maker accounts, restricted trading permit holder accounts for which a clearing approved participant has issued a letter of guarantee and sponsor accounts;

"**client account**" means an account for a client of an approved participant, but does not include account in which a member of a self-regulatory organization, or a related firm, approved person or employee of such an approved participant, member or related firm, as the case may be, has a direct or indirect interest, other than an interest in a commission charged;

"**escrow receipt**" means:

i) in the case of an equity, exchange-traded fund or income trust unit or bond option, a document issued by a financial institution approved by the Canadian Derivatives Clearing Corporation certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified option of a particular client of an approved participant; or

ii) in the case of an OCC option, a document issued by a depository approved by the clearing corporation, after executing and delivering agreements required by The Options Clearing Corporation, certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified OCC option of a particular client of an approved participant;

"**firm account**" means an account established by an approved participant, which is confined to positions carried by the approved participant on its own behalf;

"**floating margin rate**" means:

i) the last calculated regulatory margin interval, effective for the regular reset period or until a violation occurs, such rate to be reset on the regular reset date, to the calculated regulatory margin interval determined at that date; or

ii) where a violation has occurred, the last calculated regulatory margin interval determined at the date of the violation, effective for a minimum of twenty trading days, such rate to be reset at the close of the twentieth trading day, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate.

For the purposes of this definition, the term "regular reset date" is the date subsequent to the last reset date where the maximum number of trading days in the regular reset period has passed.

For the purposes of this definition, the term "regular reset period" is the normal period between margin rate resets. This period must be determined by the Canadian self-regulatory organizations with member regulation responsibilities and must not be no longer than sixty trading days.

For the purpose of this definition, the term "regulatory margin interval" means the margin interval calculated by the Bourse in collaboration with the Canadian Derivatives Clearing Corporation.

For the purpose of this definition, the term "violation" means the circumstance where the maximum 1 or 2 day percentage change in the daily closing prices is greater than the margin rate;

"**index**" means an equity index where:

i) the basket of equity securities underlying the index is comprised of eight or more securities;

ii) the weight of the single largest security position in the basket of equity securities underlying the index represents no more than 35% of the overall market value of the basket;

iii) the average market capitalization for each security position in the basket of equity securities underlying the index is at least $50 million; and

iv) in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange as set out in the definition of "regulated entities" included in the General Notes and Definitions of the ''Joint Regulatory Financial Questionnaire and Report'' form of the Investment Industry Regulatory Organization of Canada;

"**market maker account**" means a firm account of an approved participant that is confined to transactions initiated by a market maker;

"**non-client account**" means an account established with an approved participant by another member of a self-regulatory organization, a related firm, an approved person or employee of an approved participant or of a member of self-regulatory organization or of a related firm, as the case may be, in which the approved participant does not have an interest, direct or indirect, other than an interest in fees or commissions charged;

"**OCC option**" means a call option or a put option issued by The Options Clearing Corporation;

"**tracking error margin rate**" means the last calculated regulatory margin interval for the tracking error resulting from a particular offset strategy. The meaning of the term "regulatory margin interval" and the margin rate policy are the same as for the floating margin rate.

9222 Simple or Spread Positions in Futures Contracts
(01.01.05, 00.00.00)

a) Share futures contracts positions

i) For simple positions in share futures contracts held in an approved participant's account, the capital required must be equal to either the floating margin rate of the underlying interest multiplied by the daily settlement value of the futures contracts or the result of the methodology outlined under article 9122 a) i), at the Bourse's discretion;

ii) for spread positions in shares futures contracts held in an approved participant's account, the capital requirements are determined by the Bourse, in collaboration with the clearing corporation, from time to time.

b) Index futures contracts positions

The capital requirements which must be applied on all positions in index futures contracts held in an approved participant's account are determined by the Bourse, in collaboration with the clearing corporation, from time to time.

14102 Reports Pertaining to the Accumulation of Positions for Derivative Instruments
(24.04.84, 01.06.84, 13.09.05, 04.03.08, 01.04.13, 09.06.14, 01.10.15, 00.00.00)

1) Each approved participant must file daily with the Bourse, in the prescribed manner, a report detailing all gross positions held for its own account or for an account or group of accounts which are all owned by the same beneficial owner in derivative instruments listed on the Bourse when these gross positions exceed the reporting thresholds prescribed by the Bourse for each of these derivative instruments or a report confirming that there are no positions to be reported when none of the reporting thresholds prescribed by the Bourse have been exceeded for each of these derivative instruments.

2) Any report transmitted to the Bourse pursuant to this Rule must be transmitted within the reporting hours prescribed by the Bourse and not later than 9:00 a.m. (ET) on the business day following the one for which positions must be reported.

3) For each account subject to a positions report to the Bourse, each approved participant must provide to the Bourse all the information necessary to the Bourse to allow it to adequately identify and classify this account. The information that must be provided to the Bourse is the following:

   a) the name and complete coordinates of the account beneficial owner;

   b) the full account number as it appears in the approved participant records;

   c) the account type (client, firm, market-maker, professional or omnibus);

   d) the beneficial account owner classification according to the typology established by the Bourse; and

   e) the identification of the nature of transactions made by the account (speculation or hedging). If it is impossible to clearly determine if the account is used for speculative or hedging purposes, it must then, by default, be identified as being a speculative account.

4) In addition to providing the above-mentioned information to the Bourse, each approved participant must provide, for each account being reported, a unique identifier complying with the following requirements;

   a) for any account opened in the name of a natural person or of a corporation or other type of commercial entity wholly-owned by this natural person:

      i) a unique identifier allowing to link together all the accounts having the same beneficial owner. The unique identifier used in such a case must be created by the approved participant in a format that it deems to be appropriate. This unique identifier, once created and used, must not be modified or replaced by a new identifier without having provided prior notice to the Bourse.

   b) for any account owned by many natural persons such as a joint account, an investment club account, partnership or holding company:

i) if one of the natural persons owning this account has an ownership interest of more than 50% in the account, the unique identifier used must be the identifier of this person and must be set as specified in subparagraph 3) a) i) above ;

ii) if none of the persons owning the account has an ownership interest of more than~~t~~ 50%, the unique identifier must be the account name.

c) for any account opened in the name of a corporation other than a corporation wholly-owned by a natural person:

i) if one of the natural persons owning shares of this corporation holds an ownership inte~~re~~rest of more than 50% in the account, the unique identifier used must be the identifier of this person and must be set as specified in subparagraph 3) a) i) above;

ii) if more than 50% of the corporation shares are owned by another corporation, the unique identifier must be the Legal Entity Identifier of this other corporation as attributed by the organization responsible for the attribution of such an identifier;

iii) in all other cases, the unique identifier must be the Legal Entity Identifier of the corporation in whose name the account has been opened;

iv) if, for corporations mentioned in subparagraphs c) ii) and c) iii), no Legal Entity identifier is available, the identifier to be used shall be the incorporation number of the corporation as attributed by the government authority having issued the incorporation certificate of such corporation.

In the case where neither the Legal Entity Identifier nor the incorporation number of a corporation are available or can be obtained or communicated by the approved participant in reason of legal or regulatory restrictions, the approved participant shall use a unique identifier that permits to link together all the accounts having the same corporation as beneficial owner. The unique identifier used in such a case can be either the name of the corporation owning the account or be created by the approved participant in a format that it deems appropriate.

Any unique identifier, be it or not created by the approved participant, must not be changed or replaced by a new identifier without prior notice having been given to the Bourse.

For the purposes of this paragraph c), the term “Legal Entity identifier” means the unique identification number attributed to a legal entity by any organization accredited to this effect pursuant to the ISO 17442 standard of the International Standardization Organization, as approved by the Financial Stability Board and the G-20 and aiming at implementing a universal and mandatory identification system for legal entities trading any type of derivative instrument.

5) In order to determine if the reporting thresholds are attained, approved participants must aggregate positions held or controlled by the same account beneficial owner.

For the purposes of this article, the term "control" means a beneficial ownership interest greater than 50%.

6) The reporting thresholds established by the Bourse are as follows:

a) For each options class, other than options on futures contracts, and each share futures contracts on a given underlying share:

i) 250 contracts, in the case of ~~stock and~~ trust units options;

~~i)~~ii) 250 contracts, in the case of stock options and share futures contracts (for all contract months combined of each share future contract) having the same underlying security, by aggregating positions on stock options and share futures contracts, one option contract being equal to one share futures contract. While options and share futures contracts must be considered in the aggregate for purposes of the reporting threshold (on a gross basis), positions in options and share futures contracts shall be reported each separately;

~~ii)~~iii) 500 contracts, in the case of options on Exchange Traded Fund unit options;

~~iii)~~iv) 500 contracts, in the case of currency options;

~~iv)~~v) 15,000 contracts, in the case of index options;

~~v)~~vi) 1,000 contracts, in the case of sector index options.

b) For futures contracts and the related options on futures contracts:

i) 300 contracts, in the case of futures contracts and options on futures contracts on Three-Month Canadian Bankers' Acceptance Futures (BAX and OBX), by aggregating positions on options on futures contracts and positions in the underlying futures contract. In this case, one options contract (OBX) is equal to one futures contract (BAX);

ii) 250 contracts, in the case of 30-Year Government of Canada Bond Futures (LGB);

iii) 250 contracts, in the case of futures and options on futures contracts on Ten-Year Government of Canada Bond Futures (CGB and OGB), by aggregating positions on options on futures contracts and positions in the underlying futures contract. For the purposes of aggregating positions, one options contract (OGB) is equal to one futures contract (CGB);

iv) 250 contracts, in the case of Five-Year Government of Canada Bond Futures (CGF);

v) 250 contracts, in the case of Two-Year Government of Canada Bond Futures (CGZ);

vi) 1,000 contracts, in the case of S&P/TSX 60 Index Standard Futures (SXF) and S&P/TSX 60 Index Mini Futures (SXM), by aggregating positions on both futures contracts. For the purposes of aggregating positions, one standard contract (SXF) is equal to one mini contract (SXM);

vii) 1,000 contracts, in the case of S&P/TSX Composite Index Mini Futures (SCF);

viii) 300 contracts, in the case of 30-Day Overnight Repo Rate Futures (ONX) and Overnight Index Swap Futures (OIS);

ix) 500 contracts, in the case of S&P/TSX Sector Index Futures (SXA, SXB, SXH, SXY, SXK, SXU);

x) 250 contracts, in the case of futures contracts on Canada carbon dioxide equivalent (CO_2e) units with physical settlement (MCX);

xi) 1,000 contracts, in the case of futures contracts on the FTSE Emerging Markets Index;

The Bourse may, at its discretion, impose the application of any other reporting threshold that is more severe and lower than those provided in this Rule.

7) in addition to the reports required under the provisions of the present article, each approved participant must report immediately to the Vice-President of the Regulatory Division of the Bourse any situation in which the approved participant has reason to believe that itself or a client, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established by the Bourse;

8) An approved participant of the Bourse which does not trade or does not hold or manage any trading accounts for its clients or itself for the purposes of transactions in any of the derivative instruments listed on the Bourse may be exempted from complying with the requirements as provided for in paragraph 1) of the present article, under the following conditions:

i) the approved participant must submit an exemption request in writing to the Regulatory Division, confirming that it has not traded any of the derivative instruments listed on the Bourse in the last calendar year and that it does not plan to trade any of them in a foreseeable future;

ii) all exemptions granted will be valid as long as all conditions relative to such exemptions are complied with;

iii) any exemption can be cancelled by the Regulatory Division at any time and, in any case, ends when an approved participant executes a transaction on any of the derivative instruments listed on the Bourse;

9) An approved participant may, with prior approval of the Bourse, delegate to a third party the transmission of position reports required under the provisions of paragraph 1) of the present Rule. In order for such an exemption to be granted, the following conditions must be met:

i) the approved participant which wishes to delegate the task of producing and submitting position reports to a third party rather than doing so by itself must divulge to this third party all information necessary for the production of such reports, as is required by the Bourse;

ii) any delegation established in accordance with the present paragraph must first be approved in writing by the Regulatory Division. An approved participant wishing to delegate the submission of positions reports required by the Bourse to a third party must therefore submit a request for approval in writing to the Regulatory Division;

iii) all approvals of delegation granted by the Regulatory Division will be valid as long as all conditions relative to such approvals are complied with;

iv) any approval of delegation can be cancelled by the Regulatory Division at any time and, in any case, ends when the third party delegate ceases to produce reports or is no longer able to submit position reports on behalf of the approved participant having delegated such task, pursuant to the requirements of the Bourse;

v) an approved participant having chosen to delegate the submission position reports to a third party nevertheless remains responsible for the obligations provided in the present article and must ensure that all the information transmitted to the Bourse by the delagatee is complete and accurate.

15801 Underlying
(00.00.00)

The underlying issue for a Canadian or international share futures contract is an individual Canadian or international share eligible under article 15801.1.

15801.1 Eligibility criteria
(31.01.01, 00.00.00)

In order for a Canadian or international share futures contract to be traded on the Exchange, the underlying share shall be a share which is currently traded on a recognized exchange, on ~~and~~ which an option or futures contract is listed on this same exchange or on any other recognized exchange and which meet the criteria of the Canadian Derivatives Clearing Corporation.

~~For the purpose of the present Rule, the term "recognized exchange" means any exchange carrying on its activities on the territory of one of the Basle Accord Countries and those countries that have adopted the banking and supervisory rules set out in the Basle Accord, and any other exchange or group of exchanges with whom the Montreal Exchange has signed a collaboration agreement~~

15803 Trading Hours
(~~31.01.01, abr. 06.01.03~~00.00.00)

Trading hours will be determined and published by the Exchange.

15804 Trading Unit
(31.01.01, 29.04.02, 00.00.00)

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the ~~unit of~~ trading unit for each futures contract that has been approved for trading.

15805 Currency
(31.01.01, 18.01.16, 00.00.00)

Trading, clearing and settlement are in Canadian dollars for Canadian share~~s~~ futures contracts.

Trading, clearing and settlement are in foreign currency for international share~~s~~ futures contracts.

15808 ~~Daily~~ Price Limit/Trading Halts
(31.01.01, 18.01.16, 00.00.00)

Trading halts shall be coordinated with the triggering of the trading halt mechanism of the underlying interest (circuit breaker).

In the event that a recognized exchange suspends trading in the underlying interest of an international share futures contract, then the Bourse may take certain measures regarding the futures contract concerned, including suspending or halting trading in the futures contract.

15809 Position Limits
(31.01.01, 29.04.02, 15.05.09, 00.00.00)

A) The maximum net long or net short positions in share futures contracts ~~on Canadian or international shares~~ which a person may own or control in accordance with article 14157 of the Rules of the Bourse shall be as provided for under article 6651.~~follows and this for all contract months combined of each future contract having the same underlying security:~~

~~i) The number of contracts equivalent to 1,350,000 shares where the underlying security does not meet the requirements set out in sub-paragraphs ii), iii), iv) or v) hereafter;~~

~~ii) The number of contracts equivalent to 2,250,000 shares, 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;~~

~~iii) The number of contracts equivalent to 3,150,000 shares, 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.~~

~~iv) The number of contracts equivalent to 6,000,000 shares, 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.~~

~~v) The number of contracts equivalent to 7,500,000 shares, 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.~~

~~B) Exemption~~

~~As described in Policy C-1, a member may file with the Bourse 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 Bourse. The Bourse may modify any exemption which has been previously granted. A bona fide hedger may also under certain circumstances file directly with the Bourse, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Bourse.~~

~~In establishing position limits, the Bourse may apply specific limits to one or more rather than all members or clients, if deemed necessary.~~

15810 Position Reporting Threshold
(31.01.01, 29.04.02, 18.01.16, 00.00.00)

The position reporting threshold is set pursuant to article 14102.

15823 Final Settlement Price
(31.01.01, 00.00.00)

a) For Canadian shares futures contracts, the final settlement price shall be the trading unit of the futures contract times the ~~last trade price recorded in the stock underlying the futures contract at the close of regular trading hours at~~ closing price of the stock underlying the futures contract posted by the Toronto Stock Exchange on the last trading day~~, or by such other method as may be prescribed by the Exchange~~.

b) For International shares futures contracts, the final settlement price determined on the final settlement day shall be the price of the underlying stock as determined by the recognized exchange to compute the final settlement price of the corresponding stock index futures contract for which the underlying stock is a constituent, or by such other method as prescribed by the Exchange.

6651 Position Limits for Options and Share Futures Contracts
(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, 25.06.12, 12.04.13, 04.06.15, 00.00.00)

A) Except for those limits specified in article 6651, no Approved Participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a Listed Product if the Approved Participant has reason to believe that as a result of such transaction the Approved Participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limit established by the Bourse.

B) Except otherwise indicated, the applicable position limits for options, share futures contracts or aggregated options and share futures contracts positions (as defined under paragraph C) 4)) are as follows:

1. Share futures contracts, aggregated options and share futures contracts positions as well as options on stocks, exchange-traded funds or income trust units

   a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;

   b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;

   c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding;

   d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding;

   e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 100 million shares or units of the underlying interest or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares or units of the underlying interest and at least 300 million shares or units of this underlying interest are currently outstanding;

   f) 300,000 contracts for options on the following exchange-traded funds:

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

2. Debt options

   8,000 contracts.

3. Index options

   500,000 contracts.

4. Sector index options

   40,000 contracts.

5. 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.

6. 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.

7. 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, a net short share futures position, and short underlying interest are on the same side of the market and puts written, calls held, a net long share futures position, and long underlying interest are on the same side of the market;

2. the account of a restricted trading permit holder will not be counted with that of his clearing broker unless the clearing broker has an interest in the account;

3. the Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit;

4. the "aggregated options and share futures contracts position" is obtained by first netting share futures contracts positions relating to the same underlying share interest and subsequently adding the net futures contracts position (net long or net short) to options positions relating to the same underlying share interest on a per side basis (whether long or short) to determine the aggregate

per side quantity held; one option contract being equal to one share futures contract for purposes of this calculation.

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 position limits set out in paragraph B), any one account may hold an amount of options 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.

9001 Definitions
(01.01.05, 01.02.07, 30.11.15, 14.01.16, 00.00.00)

For the purpose of the present Rule:

"**approved participant account**" means all non-client accounts including firm accounts, market maker accounts, restricted trading permit holder accounts for which a clearing approved participant has issued a letter of guarantee and sponsor accounts;

"**client account**" means an account for a client of an approved participant, but does not include account in which a member of a self-regulatory organization, or a related firm, approved person or employee of such an approved participant, member or related firm, as the case may be, has a direct or indirect interest, other than an interest in a commission charged;

"**escrow receipt**" means:

i) in the case of an equity, exchange-traded fund or income trust unit or bond option, a document issued by a financial institution approved by the Canadian Derivatives Clearing Corporation certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified option of a particular client of an approved participant; or

ii) in the case of an OCC option, a document issued by a depository approved by the clearing corporation, after executing and delivering agreements required by The Options Clearing Corporation, certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified OCC option of a particular client of an approved participant;

"**firm account**" means an account established by an approved participant, which is confined to positions carried by the approved participant on its own behalf;

"**floating margin rate**" means:

i) the last calculated regulatory margin interval, effective for the regular reset period or until a violation occurs, such rate to be reset on the regular reset date, to the calculated regulatory margin interval determined at that date; or

ii) where a violation has occurred, the last calculated regulatory margin interval determined at the date of the violation, effective for a minimum of twenty trading days, such rate to be reset at the close of the twentieth trading day, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate.

For the purposes of this definition, the term "regular reset date" is the date subsequent to the last reset date where the maximum number of trading days in the regular reset period has passed.

For the purposes of this definition, the term "regular reset period" is the normal period between margin rate resets. This period must be determined by the Canadian self-regulatory organizations with member regulation responsibilities and must not be no longer than sixty trading days.

For the purpose of this definition, the term "regulatory margin interval" means the margin interval calculated by the Bourse in collaboration with the Canadian Derivatives Clearing Corporation.

For the purpose of this definition, the term "violation" means the circumstance where the maximum 1 or 2 day percentage change in the daily closing prices is greater than the margin rate;

"**index**" means an equity index where:

i) the basket of equity securities underlying the index is comprised of eight or more securities;

ii) the weight of the single largest security position in the basket of equity securities underlying the index represents no more than 35% of the overall market value of the basket;

iii) the average market capitalization for each security position in the basket of equity securities underlying the index is at least $50 million; and

iv) in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange as set out in the definition of "regulated entities" included in the General Notes and Definitions of the ''Joint Regulatory Financial Questionnaire and Report'' form of the Investment Industry Regulatory Organization of Canada;

"**market maker account**" means a firm account of an approved participant that is confined to transactions initiated by a market maker;

"**non-client account**" means an account established with an approved participant by another member of a self-regulatory organization, a related firm, an approved person or employee of an approved participant or of a member of self-regulatory organization or of a related firm, as the case may be, in which the approved participant does not have an interest, direct or indirect, other than an interest in fees or commissions charged;

"**OCC option**" means a call option or a put option issued by The Options Clearing Corporation;

"**tracking error margin rate**" means the last calculated regulatory margin interval for the tracking error resulting from a particular offset strategy. The meaning of the term "regulatory margin interval" and the margin rate policy are the same as for the floating margin rate.

9222 Simple or Spread Positions in Futures Contracts
(01.01.05, 00.00.00)

a) Share futures contracts positions

i) For simple positions in share futures contracts held in an approved participant's account, the capital required must be equal to either the floating margin rate of the underlying interest multiplied by the daily settlement value of the futures contracts or the result of the methodology outlined under article 9122 a) i), at the Bourse's discretion;

ii) for spread positions in shares futures contracts held in an approved participant's account, the capital requirements are determined by the Bourse, in collaboration with the clearing corporation, from time to time.

b) Index futures contracts positions

The capital requirements which must be applied on all positions in index futures contracts held in an approved participant's account are determined by the Bourse, in collaboration with the clearing corporation, from time to time.

14102 Reports Pertaining to the Accumulation of Positions for Derivative Instruments
(24.04.84, 01.06.84, 13.09.05, 04.03.08, 01.04.13, 09.06.14, 01.10.15, 00.00.00)

1) Each approved participant must file daily with the Bourse, in the prescribed manner, a report detailing all gross positions held for its own account or for an account or group of accounts which are all owned by the same beneficial owner in derivative instruments listed on the Bourse when these gross positions exceed the reporting thresholds prescribed by the Bourse for each of these derivative instruments or a report confirming that there are no positions to be reported when none of the reporting thresholds prescribed by the Bourse have been exceeded for each of these derivative instruments.

2) Any report transmitted to the Bourse pursuant to this Rule must be transmitted within the reporting hours prescribed by the Bourse and not later than 9:00 a.m. (ET) on the business day following the one for which positions must be reported.

3) For each account subject to a positions report to the Bourse, each approved participant must provide to the Bourse all the information necessary to the Bourse to allow it to adequately identify and classify this account. The information that must be provided to the Bourse is the following:

    a) the name and complete coordinates of the account beneficial owner;

    b) the full account number as it appears in the approved participant records;

    c) the account type (client, firm, market-maker, professional or omnibus);

    d) the beneficial account owner classification according to the typology established by the Bourse; and

    e) the identification of the nature of transactions made by the account (speculation or hedging). If it is impossible to clearly determine if the account is used for speculative or hedging purposes, it must then, by default, be identified as being a speculative account.

4) In addition to providing the above-mentioned information to the Bourse, each approved participant must provide, for each account being reported, a unique identifier complying with the following requirements;

    a) for any account opened in the name of a natural person or of a corporation or other type of commercial entity wholly-owned by this natural person:

        i) a unique identifier allowing to link together all the accounts having the same beneficial owner. The unique identifier used in such a case must be created by the approved participant in a format that it deems to be appropriate. This unique identifier, once created and used, must not be modified or replaced by a new identifier without having provided prior notice to the Bourse.

    b) for any account owned by many natural persons such as a joint account, an investment club account, partnership or holding company:

i) if one of the natural persons owning this account has an ownership interest of more than 50% in the account, the unique identifier used must be the identifier of this person and must be set as specified in subparagraph 3) a) i) above ;

ii) if none of the persons owning the account has an ownership interest of more than 50%, the unique identifier must be the account name.

c) for any account opened in the name of a corporation other than a corporation wholly-owned by a natural person:

i) if one of the natural persons owning shares of this corporation holds an ownership interest of more than 50% in the account, the unique identifier used must be the identifier of this person and must be set as specified in subparagraph 3) a) i) above;

ii) if more than 50% of the corporation shares are owned by another corporation, the unique identifier must be the Legal Entity Identifier of this other corporation as attributed by the organization responsible for the attribution of such an identifier;

iii) in all other cases, the unique identifier must be the Legal Entity Identifier of the corporation in whose name the account has been opened;

iv) if, for corporations mentioned in subparagraphs c) ii) and c) iii), no Legal Entity identifier is available, the identifier to be used shall be the incorporation number of the corporation as attributed by the government authority having issued the incorporation certificate of such corporation.

In the case where neither the Legal Entity Identifier nor the incorporation number of a corporation are available or can be obtained or communicated by the approved participant in reason of legal or regulatory restrictions, the approved participant shall use a unique identifier that permits to link together all the accounts having the same corporation as beneficial owner. The unique identifier used in such a case can be either the name of the corporation owning the account or be created by the approved participant in a format that it deems appropriate.

Any unique identifier, be it or not created by the approved participant, must not be changed or replaced by a new identifier without prior notice having been given to the Bourse.

For the purposes of this paragraph c), the term “Legal Entity identifier” means the unique identification number attributed to a legal entity by any organization accredited to this effect pursuant to the ISO 17442 standard of the International Standardization Organization, as approved by the Financial Stability Board and the G-20 and aiming at implementing a universal and mandatory identification system for legal entities trading any type of derivative instrument.

5) In order to determine if the reporting thresholds are attained, approved participants must aggregate positions held or controlled by the same account beneficial owner.

For the purposes of this article, the term “control” means a beneficial ownership interest greater than 50%.

6) The reporting thresholds established by the Bourse are as follows:

a) For each options class, other than options on futures contracts, and each share futures contracts on a given underlying share:

i) 250 contracts, in the case of trust units options;

ii) 250 contracts, in the case of stock options and share futures contracts (for all contract months combined of each share future contract) having the same underlying security, by aggregating positions on stock options and share futures contracts, one option contract being equal to one share futures contract. While options and share futures contracts must be considered in the aggregate for purposes of the reporting threshold (on a gross basis), positions in options and share futures contracts shall be reported each separately;

iii) 500 contracts, in the case of options on Exchange Traded Fund unit options;

iv) 500 contracts, in the case of currency options;

v) 15,000 contracts, in the case of index options;

vi) 1,000 contracts, in the case of sector index options.

b) For futures contracts and the related options on futures contracts:

i) 300 contracts, in the case of futures contracts and options on futures contracts on Three-Month Canadian Bankers’ Acceptance Futures (BAX and OBX), by aggregating positions on options on futures contracts and positions in the underlying futures contract. In this case, one options contract (OBX) is equal to one futures contract (BAX);

ii) 250 contracts, in the case of 30-Year Government of Canada Bond Futures (LGB);

iii) 250 contracts, in the case of futures and options on futures contracts on Ten-Year Government of Canada Bond Futures (CGB and OGB), by aggregating positions on options on futures contracts and positions in the underlying futures contract. For the purposes of aggregating positions, one options contract (OGB) is equal to one futures contract (CGB);

iv) 250 contracts, in the case of Five-Year Government of Canada Bond Futures (CGF);

v) 250 contracts, in the case of Two-Year Government of Canada Bond Futures (CGZ);

vi) 1,000 contracts, in the case of S&P/TSX 60 Index Standard Futures (SXF) and S&P/TSX 60 Index Mini Futures (SXM), by aggregating positions on both futures contracts. For the purposes of aggregating positions, one standard contract (SXF) is equal to one mini contract (SXM);

vii) 1,000 contracts, in the case of S&P/TSX Composite Index Mini Futures (SCF);

viii) 300 contracts, in the case of 30-Day Overnight Repo Rate Futures (ONX) and Overnight Index Swap Futures (OIS);

ix) 500 contracts, in the case of S&P/TSX Sector Index Futures (SXA, SXB, SXH, SXY, SXK, SXU);

x) 250 contracts, in the case of futures contracts on Canada carbon dioxide equivalent (CO2e) units with physical settlement (MCX);

xi) 1,000 contracts, in the case of futures contracts on the FTSE Emerging Markets Index;

The Bourse may, at its discretion, impose the application of any other reporting threshold that is more severe and lower than those provided in this Rule.

7) in addition to the reports required under the provisions of the present article, each approved participant must report immediately to the Vice-President of the Regulatory Division of the Bourse any situation in which the approved participant has reason to believe that itself or a client, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established by the Bourse;

8) An approved participant of the Bourse which does not trade or does not hold or manage any trading accounts for its clients or itself for the purposes of transactions in any of the derivative instruments listed on the Bourse may be exempted from complying with the requirements as provided for in paragraph 1) of the present article, under the following conditions:

i) the approved participant must submit an exemption request in writing to the Regulatory Division, confirming that it has not traded any of the derivative instruments listed on the Bourse in the last calendar year and that it does not plan to trade any of them in a foreseeable future;

ii) all exemptions granted will be valid as long as all conditions relative to such exemptions are complied with;

iii) any exemption can be cancelled by the Regulatory Division at any time and, in any case, ends when an approved participant executes a transaction on any of the derivative instruments listed on the Bourse;

9) An approved participant may, with prior approval of the Bourse, delegate to a third party the transmission of position reports required under the provisions of paragraph 1) of the present Rule. In order for such an exemption to be granted, the following conditions must be met:

   i) the approved participant which wishes to delegate the task of producing and submitting position reports to a third party rather than doing so by itself must divulge to this third party all information necessary for the production of such reports, as is required by the Bourse;

   ii) any delegation established in accordance with the present paragraph must first be approved in writing by the Regulatory Division. An approved participant wishing to delegate the submission of positions reports required by the Bourse to a third party must therefore submit a request for approval in writing to the Regulatory Division;

   iii) all approvals of delegation granted by the Regulatory Division will be valid as long as all conditions relative to such approvals are complied with;

   iv) any approval of delegation can be cancelled by the Regulatory Division at any time and, in any case, ends when the third party delegate ceases to produce reports or is no longer able to submit position reports on behalf of the approved participant having delegated such task, pursuant to the requirements of the Bourse;

v) an approved participant having chosen to delegate the submission position reports to a third party nevertheless remains responsible for the obligations provided in the present article and must ensure that all the information transmitted to the Bourse by the delagatee is complete and accurate.

15801 Underlying
(00.00.00)

The underlying issue for a Canadian or international share futures contract is an individual Canadian or international share eligible under article 15801.1.

15801.1 Eligibility criteria
(31.01.01, 00.00.00)

In order for a Canadian or international share futures contract to be traded on the Exchange, the underlying share shall be a share which is currently traded on a recognized exchange, on which an option or futures contract is listed on this same exchange or on any other recognized exchange and which meet the criteria of the Canadian Derivatives Clearing Corporation.

15803 Trading Hours
(00.00.00)

Trading hours will be determined and published by the Exchange.

15804 Trading Unit
(31.01.01, 29.04.02, 00.00.00)

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the trading unit for each futures contract that has been approved for trading.

15805 Currency
(31.01.01, 18.01.16, 00.00.00)

Trading, clearing and settlement are in Canadian dollars for Canadian share futures contracts.

Trading, clearing and settlement are in foreign currency for international share futures contracts.

15808 Price Limit/Trading Halts
(31.01.01, 18.01.16, 00.00.00)

Trading halts shall be coordinated with the triggering of the trading halt mechanism of the underlying interest (circuit breaker).

In the event that a recognized exchange suspends trading in the underlying interest of an international share futures contract, then the Bourse may take certain measures regarding the futures contract concerned, including suspending or halting trading in the futures contract.

15809 Position Limits
(31.01.01, 29.04.02, 15.05.09, 00.00.00)

A) The maximum net long or net short positions in share futures contracts which a person may own or control in accordance with article 14157 of the Rules of the Bourse shall be as provided for under article 6651.

15810 Position Reporting Threshold
(31.01.01, 29.04.02, 18.01.16, 00.00.00)

The position reporting threshold is set pursuant to article 14102.

15823 Final Settlement Price
(31.01.01, 00.00.00)

a) For Canadian shares futures contracts, the final settlement price shall be the trading unit of the futures contract times the closing price of the stock underlying the futures contract posted by the Toronto Stock Exchange on the last trading day.

b) For International shares futures contracts, the final settlement price determined on the final settlement day shall be the price of the underlying stock as determined by the recognized exchange to compute the final settlement price of the corresponding stock index futures contract for which the underlying stock is a constituent, or by such other method as prescribed by the Exchange.

PROCEDURES FOR THE EXECUTION AND REPORTING OF EXCHANGE FOR PHYSICAL (EFP), EXCHANGE FOR RISK (EFR) AND SUBSTITUTION OF OTC DERIVATIVE INSTRUMENTS FOR FUTURES CONTRACTS TRANSACTIONS

The purpose of the following procedures is to explain as fully as possible: a) the requirements of article 6815 of the Rules of Bourse de Montréal Inc. (the Bourse) relating to the execution of transactions involving the exchange of futures contracts for a corresponding cash position (Exchange for Physical (EFP)) and of transactions involving the exchange of futures contracts for a corresponding over-the-counter derivative instrument (Exchange for Risk (EFR)); and b) of article 6815A of the Rules of the Bourse relating to the execution of transactions involving the substitution of an over-the-counter derivative instrument for futures contracts. Approved participants must ensure that all of their employees who are involved in the execution of this type of transactions are fully aware of these procedures. Any violation of the requirements set forth in articles 6815 and 6815A of the Rules of the Bourse and in these procedures could result in disciplinary action being taken by the Bourse.

Exchanges for Physicals (EFP)

An EFP is a transaction whereby two parties enter into an agreement in which one party purchases a cash market position and simultaneously sells a corresponding futures contract position and the other party sells the cash market position and simultaneously purchases the corresponding futures contract position.

The Bourse permits EFP transactions on the following instruments:

Interest rate futures contracts
Futures contracts on S&P/TSX indices & on the FTSE Emerging Markets Index
Futures contracts on carbon dioxide equivalent (CO_2e) units (MCX)
Futures contracts on Canadian crude oil
Canadian Share Futures Contracts

Exchange for Risk (EFR)

An EFR is a transaction whereby two parties enter into an agreement in which one party purchases an over-the-counter derivative instrument and simultaneously sells a corresponding futures contract and the other party sells the over-the-counter derivative instrument and simultaneously purchases the corresponding futures contract.

The Bourse permits EFR transactions on the following instruments:

Interest rate futures contracts
Futures contracts on S&P/TSX indices & on the FTSE Emerging Markets Index
Futures contracts on carbon dioxide equivalent (CO_2e) units (MCX)
Futures contracts on Canadian crude oil
Canadian Share Futures Contracts

Substitution of an OTC derivative instrument for futures contracts (Substitution)

A Substitution is a transaction whereby two parties enter into an agreement to substitute an over-the-counter derivatives position for a corresponding futures contract position. The party who is the buyer of the over-the-counter derivative instrument substitutes this position and buys the corresponding futures contract and the other party who is the seller of the over-the-counter derivative instrument substitutes this position and sells the corresponding futures contract.

The Bourse currently permits Substitution transactions on futures contracts on carbon dioxide equivalent (CO_2e) units.

Pricing the Cash component of an EFP or the Risk component of an EFR or of a Substitution

The cash component of an EFP or the risk component of an EFR or of a Substitution is priced at such level that is mutually agreed upon by the two parties to the transaction.

The futures contract leg of an EFP, an EFR or a Substitution must be priced at a fair and reasonable level in light of factors such as, but not limited to, the size of such an EFP, EFR or Substitution transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market and the general market conditions prevailing at the time the EFP, EFR or Substitution transaction is executed.

The cash component of an EFP or the risk component of an EFR or of a Substitution transaction must be the futures contract underlying interest, a by-product of this underlying interest or a similar product that is reasonably correlated to the underlying interest of the futures contract being exchanged or the futures contract itself where the use of the underlying interest is not practical.

Also, the number of futures contracts exchanged must be approximately equivalent to the quantity or value of the cash market position being exchanged in an EFP transaction or of the risk component being exchanged in the case of an EFR or substituted in the case of a Substitution. Approved participants that are parties to an EFP, EFR or Substitution transaction may be required to demonstrate such equivalency.

Acceptable EFP, EFR and Substitution Transactions

In order to have an EFP, EFR or Substitution transaction accepted by the Bourse, the transaction must satisfy the following conditions:

- There must be separate but integrally related futures contracts and cash (in the case of an EFP) or risk component (in the case of an EFR or Substitution) transactions.

- The exchange or substitution transaction must be done between two separate accounts that must satisfy at least one of the following criteria:
  - accounts have different beneficial ownership;
  - accounts have the same beneficial ownership but are under separate control; or
  - accounts are under a common control but involve separate legal entities which may or may not have the same beneficial ownership.

  If the parties to an EFP, EFR or Substitution transaction involve the same legal entity, same beneficial owner or separate legal entities under common control, the approved participant (or the parties themselves) must be able to demonstrate that the EFP, EFR or Substitution transaction is a legitimate arm's length transaction.

- The cash market instrument leg of the EFP or the risk component leg of an EFR transaction must provide for a transfer of ownership of the cash market instrument of an EFP or of the over-the-counter derivative instrument of the EFR to the buyer of this instrument and the delivery of this instrument must take place within a reasonable period of time (in accordance with cash market or over-the-counter practice).

- The relation between the prices of the futures contract and of the cash instrument leg of the EFP or the risk component leg of the EFR or Substitution transaction and the relevant prices in either market must be established.

- If he does not have actual possession of the cash instrument, in the case of an EFP transaction, or of the over-the-counter derivative instrument, in the case of an EFR transaction, before the execution of the transaction, the seller of this cash instrument or over-the-counter derivative instrument must be able to demonstrate his ability to satisfy his delivery obligation.

- The Bourse may request that approved participants involved in an EFP, EFR or a Substitution transaction demonstrate that the related cash position and futures position is reasonably correlated.

Acceptable Cash Components for the purpose of an EFP Transaction

In order to have an EFP transaction accepted by the Bourse, the cash component of the transaction must satisfy the following conditions:

- **For interest rate futures contracts:** fixed income instruments that have a reasonable price correlation, maturities as well as risk characteristics that parallel the instrument underlying the futures contract being exchanged or the futures contract itself where the use of the underlying interest is not practical. Such instruments include, but are not necessarily limited to, money market instruments including asset backed commercial paper, Government of Canada and Federal Crown Corporation fixed income instruments, provincials fixed income instruments, investment grade corporates including Maple Bonds and mortgage instruments including collateralized mortgage obligations (CMOs). Fixed income instruments denominated in the currency of a G7 member country that satisfy these conditions are also acceptable.

- **For futures contracts on S&P/TSX indices and on the FTSE Emerging Markets index:** stock baskets must be reasonably correlated to the underlying index with a correlation coefficient (R) of 0.90 or more. Furthermore, these stock baskets must represent a weight of at least 50% of the underlying index or must include at least 50% of the securities of the underlying index. The notional value of the basket must be fairly equal to the value of the futures contract component of the exchange transaction. Exchange-traded funds are also acceptable, provided they mirror the index futures contract against which the EFP transaction is made.

- **For futures contracts on carbon dioxide equivalent (CO_2e) units:** The eligible Canadian CO_2e units are regulated emitters' credits, and / or offset credits

- **For futures contracts on Canadian crude oil:**

  - For Canadian heavy crude oil: specific domestic crude oil streams with not less than 2.5% nor more than 3.5% sulfur by weight, not less than 19° API gravity nor more than 22° API gravity. Domestic crude oil streams include, but are not limited to: Western Canadian Select, Western Canadian Blend, Lloyd Blend, Bow River, Cold Lake Blend and Wabasca.

- **For Canadian share futures contracts:** The underlying stock of the futures contract being exchanged.

Permissible Over-the-Counter Derivative Instruments for the purpose of an EFR Transaction

A list of permissible over-the-counter derivative instruments for the purpose of effecting an EFR transaction is included in Appendix I.

Permissible Over-the-Counter Derivative Instruments for the purpose of a Substitution Transaction

- **For futures contracts on carbon dioxide equivalent (CO_2e) units:** Over-the-counter derivative instruments on carbon dioxide equivalent units that are reasonably correlated (with a correlation coefficient (R) of 0.80 or more) to the futures contract being substituted.

As a guideline, the time period used to calculate the correlation coefficient must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Reporting an EFP, EFR or Substitution transaction to the Bourse

EFP, EFR and Substitution transactions must be reported to the Bourse's Market Operations Department for approval and subsequent input into the Montréal Automated System (SAM). Approved participants for both the seller and buyer must complete and submit to the Market Operations Department the Special Terms Transaction Reporting Form prescribed by the Bourse. This form is available on the Web sites of the Bourse at http://sttrf-frots.m-x.ca/ and at http://sttrf-frots.m-x.ca/ in the case of futures contracts on carbon dioxide equivalent (CO_2e) units. If the EFP, EFR or Substitution transaction is executed before the closing of the trading session of the futures contract involved in the transaction, the Special Terms Transaction Reporting Form must be submitted within one hour upon determination of all the relevant terms of the trade. If the EFP, EFR or Substitution transaction is made after the closing of the trading session, the Special Terms Transaction Reporting Form must be submitted no later than 10:00 a.m. (Montréal time) on the next trading day.

If the Special Terms Transaction Reporting Form is not accurately filled out with all the relevant information required by the Market Operations Department of the Bourse, the transaction will not be approved neither recorded in SAM and the approved participant will have to resubmit a new Special Terms Transaction Reporting Form correctly completed.

Once correctly completed Special Terms Transaction Reporting Forms have been received, the Market Operations Department will validate the transaction. The Bourse has the discretion to refuse an EFP, EFR or Substitution transaction if it deems that it is not in compliance with the requirements, as the case may be, of articles 6815 or 6815A of the Rules of the Bourse or of these procedures. In case of refusal, the Market Operations Department will ensure that the approved participant(s) involved in the EFP, EFR or Substitution transaction are promptly informed of such refusal and of the reasons for it.

Once an EFP, an EFR or Substitution transaction has been validated and has been entered into SAM by the Market Operations Department, the following information with respect to this transaction will be disseminated by the Bourse on its Web sites at http://www.m-x.ca/dailycrosses_en.php or at http://www.mcex.ca/trading_transactionReport in the case of case of futures contracts on carbon dioxide equivalent (CO_2e) units:

- Date and time of transaction
- product description (code);
- Contract month(s);
- Volume of the transaction; and
- Transaction price

Trade validation and market dissemination by the Bourse of an EFP, EFR or Substitution transaction will not preclude the Bourse from initiating any investigation and, as the case may be, disciplinary procedures in the event that the transaction is subsequently found to have been made other than in accordance with the requirements of articles 6815 and 6815A of the Rules of the Bourse or of these procedures.

Audit Trail Requirements for EFP, EFR and Substitution Transactions

Approved participants who enter into an EFP, EFR or Substitution transaction must maintain all documents relevant to the futures contracts and corresponding cash market or over-the-counter derivative instruments transactions and must be able to promptly provide copies of such documents to the Regulatory Division of the Bourse upon request. Documents that may be requested include, but are not limited to, the following:

- Futures contracts order tickets;
- Futures contracts account statements;
- Documentation customarily generated in accordance with the cash market, over-the-counter or other relevant market practices such as cash account statements, trade confirmation statements, ISDA® Master Agreements or other documents of title;
- Third party documentation to support proof of payment or allowing to verify that the ownership title of the related cash market position or, as the case may be, of the related over-the-counter derivative instrument position was transferred from the seller to the buyer. This may include, but is not limited to canceled checks, bank statements; cash account statements and cash instruments clearing corporation documents (e.g.: CDS Depository and Clearing Services Inc.).

All futures contracts order tickets must clearly indicate the time of execution of the EFP, EFR or Substitution transactions.

APPENDIX 1
Exchange for Risk: List of permissible OTC derivative instruments

	Bond Futures Contracts	Short-Term Interest Rate Futures Contracts	Stock Index Futures~~/ Single Stock Futures~~	Share Futures Contracts	Commodities Futures
Vanilla Interest Rate Swaps	√	√			
Index Swaps			√		
Equity ~~and Index~~ Swaps			~~√~~	√	
Index Forwards			√		
Equity Forwards				√	
Commodities Swaps or Forwards				~~√~~	√
Forward Rate Agreements - FRAs		√			
OTC Options and Options Strategies	√	√	√	√	

The following outlines the characteristics of OTC derivative instruments that would be acceptable for EFR transaction purposes.

Swaps:

Interest rate

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for regular fixed rate payments against regular floating rate payments;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC interest rate swap must be reasonably correlated with an R = 0.70 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transactions. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Equities and indices

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for regular fixed rate payments or regular floating rate payments against the positive or negative performance of a stock, exchange-traded fund (ETF), basket of securities or a stock index;
- All swap payments must be denominated in the currency of a G7 member country;
- ~~The~~For EFR's on stock index futures, the OTC equity or index swap must be reasonably correlated with an R = 0.90 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Equity and index Forwards:

- Standard equity forward contract between two counterparties to buy a specific quantity of a stock, exchange-traded fund (ETF), basket of securities or stock index at a predetermined price for settlement at a future date.

Swaps or Forwards on Commodities:

- written under the terms of an ISDA® Master Agreement;
- The OTC commodities swap or forward must be reasonably correlated with an R = 0.80 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Forward Rate Agreements (FRAs):

- conventional FRA;
- written under the terms of an ISDA® Master Agreement;
- predetermined interest rate;
- agreed start/end date;
- have a defined interest (repo) rate.

OTC Options and OTC Option Strategies:

- Any individual or combination of OTC equity or stock index option positions can form the risk transaction component of an EFR transaction against respectively any of the Bourse's ~~stock index or single stock~~share futures contracts or stock index futures contracts.
- Any individual or combination of OTC bond, interest rate swap or FRA options (e.g. caps, floors, collars) can form the risk component of an EFR transaction against any of the Bourse's interest rate futures contracts

Stock baskets used in an EFR transaction must have the following characteristics:

- be reasonably correlated to the index underlying the futures contract with an R = 0.90 or greater and the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data is used, for a period of at least one (1) year;
- represent at least 50% of the weight of the index underlying the futures contract or include at least 50% of the stocks comprised in the index underlying the futures contract;
- have a notional value equivalent to the value of the futures contract component of the EFR transaction;
- exchange-traded funds (ETFs) are acceptable provided that they mirror stock index products traded on the Bourse.

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PROCEDURES FOR THE EXECUTION AND REPORTING OF EXCHANGE FOR PHYSICAL (EFP), EXCHANGE FOR RISK (EFR) AND SUBSTITUTION OF OTC DERIVATIVE INSTRUMENTS FOR FUTURES CONTRACTS TRANSACTIONS

The purpose of the following procedures is to explain as fully as possible: a) the requirements of article 6815 of the Rules of Bourse de Montréal Inc. (the Bourse) relating to the execution of transactions involving the exchange of futures contracts for a corresponding cash position (Exchange for Physical (EFP)) and of transactions involving the exchange of futures contracts for a corresponding over-the-counter derivative instrument (Exchange for Risk (EFR)); and b) of article 6815A of the Rules of the Bourse relating to the execution of transactions involving the substitution of an over-the-counter derivative instrument for futures contracts. Approved participants must ensure that all of their employees who are involved in the execution of this type of transactions are fully aware of these procedures. Any violation of the requirements set forth in articles 6815 and 6815A of the Rules of the Bourse and in these procedures could result in disciplinary action being taken by the Bourse.

Exchanges for Physicals (EFP)

An EFP is a transaction whereby two parties enter into an agreement in which one party purchases a cash market position and simultaneously sells a corresponding futures contract position and the other party sells the cash market position and simultaneously purchases the corresponding futures contract position.

The Bourse permits EFP transactions on the following instruments:

Interest rate futures contracts
Futures contracts on S&P/TSX indices & on the FTSE Emerging Markets Index
Futures contracts on carbon dioxide equivalent (CO_2e) units (MCX)
Futures contracts on Canadian crude oil
Canadian Share Futures Contracts

Exchange for Risk (EFR)

An EFR is a transaction whereby two parties enter into an agreement in which one party purchases an over-the-counter derivative instrument and simultaneously sells a corresponding futures contract and the other party sells the over-the-counter derivative instrument and simultaneously purchases the corresponding futures contract.

The Bourse permits EFR transactions on the following instruments:

Interest rate futures contracts
Futures contracts on S&P/TSX indices & on the FTSE Emerging Markets Index
Futures contracts on carbon dioxide equivalent (CO_2e) units (MCX)
Futures contracts on Canadian crude oil
Canadian Share Futures Contracts

Substitution of an OTC derivative instrument for futures contracts (Substitution)

A Substitution is a transaction whereby two parties enter into an agreement to substitute an over-the-counter derivatives position for a corresponding futures contract position. The party who is the buyer of the over-the-counter derivative instrument substitutes this position and buys the corresponding futures contract and the other party who is the seller of the over-the-counter derivative instrument substitutes this position and sells the corresponding futures contract.

The Bourse currently permits Substitution transactions on futures contracts on carbon dioxide equivalent (CO_2e) units.

Pricing the Cash component of an EFP or the Risk component of an EFR or of a Substitution

The cash component of an EFP or the risk component of an EFR or of a Substitution is priced at such level that is mutually agreed upon by the two parties to the transaction.

The futures contract leg of an EFP, an EFR or a Substitution must be priced at a fair and reasonable level in light of factors such as, but not limited to, the size of such an EFP, EFR or Substitution transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market and the general market conditions prevailing at the time the EFP, EFR or Substitution transaction is executed.

The cash component of an EFP or the risk component of an EFR or of a Substitution transaction must be the futures contract underlying interest, a by-product of this underlying interest or a similar product that is reasonably correlated to the underlying interest of the futures contract being exchanged or the futures contract itself where the use of the underlying interest is not practical.

Also, the number of futures contracts exchanged must be approximately equivalent to the quantity or value of the cash market position being exchanged in an EFP transaction or of the risk component being exchanged in the case of an EFR or substituted in the case of a Substitution. Approved participants that are parties to an EFP, EFR or Substitution transaction may be required to demonstrate such equivalency.

Acceptable EFP, EFR and Substitution Transactions

In order to have an EFP, EFR or Substitution transaction accepted by the Bourse, the transaction must satisfy the following conditions:

- There must be separate but integrally related futures contracts and cash (in the case of an EFP) or risk component (in the case of an EFR or Substitution) transactions.

- The exchange or substitution transaction must be done between two separate accounts that must satisfy at least one of the following criteria:
  - accounts have different beneficial ownership;
  - accounts have the same beneficial ownership but are under separate control; or
  - accounts are under a common control but involve separate legal entities which may or may not have the same beneficial ownership.

  If the parties to an EFP, EFR or Substitution transaction involve the same legal entity, same beneficial owner or separate legal entities under common control, the approved participant (or the parties themselves) must be able to demonstrate that the EFP, EFR or Substitution transaction is a legitimate arm's length transaction.

- The cash market instrument leg of the EFP or the risk component leg of an EFR transaction must provide for a transfer of ownership of the cash market instrument of an EFP or of the over-the-counter derivative instrument of the EFR to the buyer of this instrument and the delivery of this instrument must take place within a reasonable period of time (in accordance with cash market or over-the-counter practice).

- The relation between the prices of the futures contract and of the cash instrument leg of the EFP or the risk component leg of the EFR or Substitution transaction and the relevant prices in either market must be established.

- If he does not have actual possession of the cash instrument, in the case of an EFP transaction, or of the over-the-counter derivative instrument, in the case of an EFR transaction, before the execution of the transaction, the seller of this cash instrument or over-the-counter derivative instrument must be able to demonstrate his ability to satisfy his delivery obligation.

- The Bourse may request that approved participants involved in an EFP, EFR or a Substitution transaction demonstrate that the related cash position and futures position is reasonably correlated.

Acceptable Cash Components for the purpose of an EFP Transaction

In order to have an EFP transaction accepted by the Bourse, the cash component of the transaction must satisfy the following conditions:

- **For interest rate futures contracts:** fixed income instruments that have a reasonable price correlation, maturities as well as risk characteristics that parallel the instrument underlying the futures contract being exchanged or the futures contract itself where the use of the underlying interest is not practical. Such instruments include, but are not necessarily limited to, money market instruments including asset backed commercial paper, Government of Canada and Federal Crown Corporation fixed income instruments, provincials fixed income instruments, investment grade corporates including Maple Bonds and mortgage instruments including collateralized mortgage obligations (CMOs). Fixed income instruments denominated in the currency of a G7 member country that satisfy these conditions are also acceptable.

- **For futures contracts on S&P/TSX indices and on the FTSE Emerging Markets index:** stock baskets must be reasonably correlated to the underlying index with a correlation coefficient (R) of 0.90 or more. Furthermore, these stock baskets must represent a weight of at least 50% of the underlying index or must include at least 50% of the securities of the underlying index. The notional value of the basket must be fairly equal to the value of the futures contract component of the exchange transaction. Exchange-traded funds are also acceptable, provided they mirror the index futures contract against which the EFP transaction is made.

- **For futures contracts on carbon dioxide equivalent (CO_2e) units:** The eligible Canadian CO_2e units are regulated emitters' credits, and / or offset credits

- **For futures contracts on Canadian crude oil:**

    - For Canadian heavy crude oil: specific domestic crude oil streams with not less than 2.5% nor more than 3.5% sulfur by weight, not less than 19° API gravity nor more than 22° API gravity. Domestic crude oil streams include, but are not limited to: Western Canadian Select, Western Canadian Blend, Lloyd Blend, Bow River, Cold Lake Blend and Wabasca.

- **For Canadian share futures contracts:** The underlying stock of the futures contract being exchanged.

Permissible Over-the-Counter Derivative Instruments for the purpose of an EFR Transaction

A list of permissible over-the-counter derivative instruments for the purpose of effecting an EFR transaction is included in Appendix I.

Permissible Over-the-Counter Derivative Instruments for the purpose of a Substitution Transaction

- **For futures contracts on carbon dioxide equivalent (CO_2e) units:** Over-the-counter derivative instruments on carbon dioxide equivalent units that are reasonably correlated (with a correlation coefficient (R) of 0.80 or more) to the futures contract being substituted.

As a guideline, the time period used to calculate the correlation coefficient must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Reporting an EFP, EFR or Substitution transaction to the Bourse

EFP, EFR and Substitution transactions must be reported to the Bourse's Market Operations Department for approval and subsequent input into the Montréal Automated System (SAM). Approved participants for both the seller and buyer must complete and submit to the Market Operations Department the Special Terms Transaction Reporting Form prescribed by the Bourse. This form is available on the Web sites of the Bourse at http://sttrf-frots.m-x.ca/ and at http://sttrf-frots.m-x.ca/ in the case of futures contracts on carbon dioxide equivalent (CO_2e) units. If the EFP, EFR or Substitution transaction is executed before the closing of the trading session of the futures contract involved in the transaction, the Special Terms Transaction Reporting Form must be submitted within one hour upon determination of all the relevant terms of the trade. If the EFP, EFR or Substitution transaction is made after the closing of the trading session, the Special Terms Transaction Reporting Form must be submitted no later than 10:00 a.m. (Montréal time) on the next trading day.

If the Special Terms Transaction Reporting Form is not accurately filled out with all the relevant information required by the Market Operations Department of the Bourse, the transaction will not be approved neither recorded in SAM and the approved participant will have to resubmit a new Special Terms Transaction Reporting Form correctly completed.

Once correctly completed Special Terms Transaction Reporting Forms have been received, the Market Operations Department will validate the transaction. The Bourse has the discretion to refuse an EFP, EFR or Substitution transaction if it deems that it is not in compliance with the requirements, as the case may be, of articles 6815 or 6815A of the Rules of the Bourse or of these procedures. In case of refusal, the Market Operations Department will ensure that the approved participant(s) involved in the EFP, EFR or Substitution transaction are promptly informed of such refusal and of the reasons for it.

Once an EFP, an EFR or Substitution transaction has been validated and has been entered into SAM by the Market Operations Department, the following information with respect to this transaction will be disseminated by the Bourse on its Web sites at http://www.m-x.ca/dailycrosses_en.php or at http://www.mcex.ca/trading_transactionReport in the case of case of futures contracts on carbon dioxide equivalent (CO_2e) units:

- Date and time of transaction
- product description (code);
- Contract month(s);
- Volume of the transaction; and
- Transaction price

Trade validation and market dissemination by the Bourse of an EFP, EFR or Substitution transaction will not preclude the Bourse from initiating any investigation and, as the case may be, disciplinary procedures in the event that the transaction is subsequently found to have been made other than in accordance with the requirements of articles 6815 and 6815A of the Rules of the Bourse or of these procedures.

Audit Trail Requirements for EFP, EFR and Substitution Transactions

Approved participants who enter into an EFP, EFR or Substitution transaction must maintain all documents relevant to the futures contracts and corresponding cash market or over-the-counter derivative instruments transactions and must be able to promptly provide copies of such documents to the Regulatory Division of the Bourse upon request. Documents that may be requested include, but are not limited to, the following:

- Futures contracts order tickets;
- Futures contracts account statements;
- Documentation customarily generated in accordance with the cash market, over-the-counter or other relevant market practices such as cash account statements, trade confirmation statements, ISDA® Master Agreements or other documents of title;
- Third party documentation to support proof of payment or allowing to verify that the ownership title of the related cash market position or, as the case may be, of the related over-the-counter derivative instrument position was transferred from the seller to the buyer. This may include, but is not limited to canceled checks, bank statements; cash account statements and cash instruments clearing corporation documents (e.g.: CDS Depository and Clearing Services Inc.).

All futures contracts order tickets must clearly indicate the time of execution of the EFP, EFR or Substitution transactions.

APPENDIX 1
Exchange for Risk: List of permissible OTC derivative instruments

	Bond Futures Contracts	Short-Term Interest Rate Futures Contracts	Stock Index Futures~~/ Single Stock Futures~~	Share Futures Contracts	Commodities Futures
Vanilla Interest Rate Swaps	√	√			
Index Swaps			√		
Equity ~~and Index~~ Swaps			~~√~~	√	
Index Forwards			√		
Equity Forwards				√	
Commodities Swaps or Forwards				~~√~~	√
Forward Rate Agreements - FRAs		√			
OTC Options and Options Strategies	√	√	√	√	

The following outlines the characteristics of OTC derivative instruments that would be acceptable for EFR transaction purposes.

Swaps:

Interest rate

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for regular fixed rate payments against regular floating rate payments;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC interest rate swap must be reasonably correlated with an $R = 0.70$ or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transactions. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Equities and indices

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for regular fixed rate payments or regular floating rate payments against the positive or negative performance of a stock, exchange-traded fund (ETF), basket of securities or a stock index;
- All swap payments must be denominated in the currency of a G7 member country;
- ~~The~~For EFR's on stock index futures, the OTC equity or index swap must be reasonably correlated with an $R = 0.90$ or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Equity and index Forwards:

- Standard equity forward contract between two counterparties to buy a specific quantity of a stock, exchange-traded fund (ETF), basket of securities or stock index at a predetermined price for settlement at a future date.

Swaps or Forwards on Commodities:

- written under the terms of an ISDA® Master Agreement;
- The OTC commodities swap or forward must be reasonably correlated with an R = 0.80 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Forward Rate Agreements (FRAs):

- conventional FRA;
- written under the terms of an ISDA® Master Agreement;
- predetermined interest rate;
- agreed start/end date;
- have a defined interest (repo) rate.

OTC Options and OTC Option Strategies:

- Any individual or combination of OTC equity or stock index option positions can form the risk transaction component of an EFR transaction against respectively any of the Bourse's ~~stock index or single stock~~share futures contracts or stock index futures contracts.
- Any individual or combination of OTC bond, interest rate swap or FRA options (e.g. caps, floors, collars) can form the risk component of an EFR transaction against any of the Bourse's interest rate futures contracts

Stock baskets used in an EFR transaction must have the following characteristics:

- be reasonably correlated to the index underlying the futures contract with an R = 0.90 or greater and the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data is used, for a period of at least one (1) year;
- represent at least 50% of the weight of the index underlying the futures contract or include at least 50% of the stocks comprised in the index underlying the futures contract;
- have a notional value equivalent to the value of the futures contract component of the EFR transaction;
- exchange-traded funds (ETFs) are acceptable provided that they mirror stock index products traded on the Bourse.

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PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING SHARE FUTURES

1. OBJECTIVE

The objective of these procedures is to provide and facilitate the trading of strategies involving share futures and the underlying share for approved participants. Approved participants may request the execution of customized strategies by contacting the Bourse de Montréal Inc.'s ("**Bourse**") Market Operations Department ("**MOD**") at 1 866 576-8836 or 514 871-7877 for assistance in presenting a share futures strategy to designated market makers and ensuring its manual execution in the Bourse's trading system.

2. DESCRIPTION

Execution by MOD

A strategy involving a share futures contract and the underlying shares must be submitted by an approved participant using the following procedure:

A. The approved participant must contact the MOD and indicate its Share Futures strategy. The information provided must include the Share futures instrument and the equity leg involved, the quantity ratio, the price and the total quantity of the order. Approved participants must have received and time-registered their order prior to contacting the MOD.

B. The MOD will contact qualifying market makers assigned to the Share Futures class. A qualifying market maker is defined as a market maker that is showing a bid/ask market, with a minimum of ten contracts per side. The MOD will respect the following procedure:

  i. For strategies involving less than 50 contracts, market makers will be contacted individually in order starting with the market maker quoting the tightest market;

  ii. For strategies involving between 50 and 99 contracts per leg, market makers will be contacted by groups of two in order, starting with the two market makers quoting the tightest market;

  iii. For strategies involving 100 contracts or more per leg, all qualifying market makers will be contacted. Qualifying market makers will be contacted and shown the strategy as submitted by the approved participant. If the market maker(s) accepts the prices provided by the MOD, the transaction will be entered and broadcast to all relevant parties (approved participants, market makers, and stock exchange, if necessary).

C. The market makers may provide responding bids, offers and quantities:

i. If market makers choose to participate on the strategy, they must be willing to trade all parts inherent to the transaction (both share futures and shares) but they will not be obligated to trade the entire quantity;

ii. If a particular market maker is not available within 15 seconds of the market supervisor of the MOD initiating the telephone call, no additional attempts to contact him will be made. The market maker should provide an answer to the MOD within approximately 30 seconds of the strategy description given by the MOD.

D. In some situations where the strategy cannot be executed, the MOD may inform the approved participant of the best corresponding bid/offer as well as the corresponding quantities obtained by market makers. Once the details of the transaction are negotiated and confirmed, information on the transaction will be entered into the Bourse's trading system by the MOD and broadcast to the marketplace. The strategy trade will be broadcast via the Bourse's Web site and the share futures leg prices and volumes will be disseminated via the Bourse's data feed. The equity leg will be submitted by the MOD to the venue where the equity is traded, for entry into the trading system

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