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CIRCULAR 118-16
September 28, 2016

REQUEST FOR COMMENTS

INTRODUCTION AND DELETION OF CLASSES AND SERIES OF OPTIONS

AMENDMENTS TO ARTICLES 6394, 6605 AND 6606 OF RULE SIX OF BOURSE DE MONTREAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) approved amendments to articles 6394, 6605 and 6606 of Rule Six of the Bourse in order to clarify the requirements applicable to the introduction and deletion of options classes and series and to align the Rules with other exchanges’ practices.

Comments on the proposed amendments must be submitted at the latest on **October 31, 2016**. Please submit your comments to:

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

M^e 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
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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

For your information, you will find in the appendices an analysis of the proposed amendments 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 determined by the *Derivatives Act* (CQLR, chapter I-14.01).

Process for Changes to the Rules

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



INTRODUCTION AND DELETION OF CLASSES AND SERIES OF OPTIONS

AMENDMENTS TO ARTICLES 6394, 6605 AND 6606 OF RULE SIX OF THE BOURSE

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I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) has undertaken a project to update and modernize its Rules. This project seeks to review the structure of the Rules, unify procedures into the Rules, remove outdated articles, align the Rules with current practices, and recommend substantive amendments as appropriate to adapt the Rules to the evolution of the market. This document discusses the amendments the Bourse identified in order to clarify the Rules and bring them in alignment with current practices. The proposed amendments are based on an internal review of the Rules conducted by the Bourse and are necessary to ensure that the Rules accurately reflect current practices.

II. ANALYSIS

a. Background

The proposed amendments are part of the rule modernization project. So far, the Bourse removed outdated articles from the Rules, aligned the Rules with current practices, incorporated the product’s specifications in the Rules and proceeded to substantive amendments in consultation with market participants. The proposed amendments presented in this analysis will update the Rules and bring them into alignment with the Bourse current practices.

Each of the proposed amendments is analysed below with additional details included in the Appendix.

b. Description and Analysis of Market Impacts

- **6605 (Introduction and Deletion of Classes and Series of Options)**
- **6394 (Introduction and Deletion of Classes and Series of Options)**

Articles 6394 and 6605 address the introduction and deletion of classes and series of options on the Bourse. The content of both articles is practically the same except for additional requirements mentioned in paragraphs a) ii), c), d) ii) and iii) in article 6605. However, none of these articles mention the type of options they apply to, which can cause confusion. In order to avoid redundancy and confusion as to which articles apply to certain types of options, the Bourse proposes to merge these two articles into a single one and clearly specify the applicable requirements based on the type of option. Article 6605 applies to equity and ETF options whereas article 6394 applies to every other type of options. Therefore, article 6605 will be abrogated and article 6394 will be updated to add and specify the requirements applicable to equity and ETF options.

- **6606 (Opening of Additional Series)**

Current article 6606 provides that new option series can be introduced when the price of the underlying interest of the option has moved materially. In order to provide the Bourse with the authority to open additional series of options based on clients’ demand or when appropriate given market conditions, the Bourse proposes to amend article 6606 to make clear that the Bourse in its discretion may, from time to time, introduce new series of options in a class of options that has previously been approved for trading on the Bourse. Such amendment will bring this article into alignment with other derivatives exchanges.

The introduction of additional series of options will remain subject to the conditions set forth in article 6394 which specifically mentions that the liquidity of the options market should not be unduly reduced by reason of such additional.

Comparative analysis:

- CBOE ([Rule 5.5](#))
- NYSE Arca [Rule 6.4](#)
- Nasdaq OMX ([Section 6, Chapter IV](#))

c. Comparative Analysis

Except for amendments to article 6606 regarding the opening of additional series of options, the Bourse is not changing its current practices and thus didn't conduct a comparative analysis.

d. Proposed Amendments

Please see Appendix 1 which provides further details on the proposed amendments.

III. AMENDMENT PROCESS

The Bourse undertook this project to update its Rules and provide its clients with more clarity with regard to its regulations. The proposed amendments will allow the Rules to accurately reflect current practices and provide greater clarity regarding the scope of the certain articles.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

None of the proposed amendments have an impact on the technological systems of the Bourse or those of its approved participants.

V. OBJECTIVES OF PROPOSED AMENDMENTS

The proposed amendments seek to:

- Provide greater clarity for market participants;
- Avoid redundancies within the Rules;
- Align the Rules with the current Bourse practices.

VI. PUBLIC INTEREST

It is in the public interest for the Rules of the Bourse to accurately reflect current practices. The proposed amendments aim at making the Rules more transparent and ensuring there is no ambiguity in the application thereof.

VII. EFFICIENCY

The proposed amendments will have no impact on market efficiency.

VIII. PROCESS

The proposed amendments will be submitted to the Bourse's Rules and Policies Committee for approval. They will also be 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 articles 6394, 6605 and 6606 of Rule Six.

6394 Introduction and Deletion of Classes and Series of Options
(29.10.01, 00.00.00)

INTRODUCTION

a) Introduction. Before submitting a formal application to the Clearing Corporation for the introduction of a new class of options, the Bourse shall be satisfied that ~~the liquidity of the options market on the Bourse is not unduly reduced by reason of such addition.~~ the following conditions are met:

- b) ~~When introducing a new class~~ 1) the liquidity of the options market on the Bourse shall determine is not unduly reduced by reason of such addition;
- ~~i~~ 2) the symbol for such option has been determined;
- ~~ii~~ 3) the date that trading shall begin has been determined; and

DELETION

4) Additional requirements applicable for equity and ETF options. The following conditions, in addition to the conditions in paragraphs 1), 2) and 3), shall apply to the introduction of equity and ETF options:

- i) the new option series should be introduced in such a manner as to enable the proper functioning of the spread process within the new series; and
- ii) the Bourse shall open at least two series in each expiration month, so that the exercise of one series is above, and one is below, the price per unit of the underlying interest; provided however, the Bourse may, in its discretion, open more than two series in an expiration month if it determines that doing so would be beneficial to the market.

b) Deletion. Whenever the Bourse determines that an underlying interest previously approved for options transactions on the Bourse does not meet the requirements for continued approval or for any other reason should no longer be approved, it may decide in its discretion not to open for trading any additional series of the class covering the underlying interest and to prohibit any opening purchase transactions in already existing series of that class. In making its determination, the Bourse shall take into consideration namely the following factors:

- b) ~~The Bourse can delete an equity option if the issuer has failed to make timely reports as required by the regulation where the underlying interest is traded.~~
- e) ~~Such action shall not be taken without regard to the~~ 1) the necessity of maintaining a fair and orderly market and to ensure the protection of purchasers and writers of option contracts.
-) ~~The Bourse may delete~~ 2) the fact that specific series of any class of options when the series have has no open interest, and.

3) Additional considerations applicable for equity and ETF options. The following additional factors in addition to the factors in paragraphs 1) and 2) shall apply to the deletion of equity or ETF options:

i) whether the issuer has failed to make timely reports as required by the rules where the underlying interest is traded;

ii) if both Puts and Call have been opened for trading, corresponding Puts and Calls satisfy the deletion criteria; and

iii) the series are deep-in-the-money or deep-out-of-the-money and there is no other series which is as deep-in-the-money or as deep-out-of-the-money with a later expiration date and has open interest.

6605 Introduction and Deletion of Classes and Series of Options

(10.11.92, 07.09.99, abr.00.00.00)

INTRODUCTION

~~a) Before submitting a formal application to the Clearing Corporation for the introduction of a new class of options, the Exchange shall be satisfied that:~~

~~i) the liquidity of the options market on the Exchange is not unduly reduced by reason of such addition;~~

~~ii) the new series will be added in such a manner as to enable the proper function of the spread process within the new series.~~

~~b) When introducing a new class of options, the Exchange shall determine:~~

~~i) the symbol;~~

~~ii) the date that trading shall begin.~~

~~c) When introducing a new class of options, the Exchange shall open at least two series in each expiration month, such that the exercise price of one series is above, and one is below, the price per unit of the underlying interest. However, the Exchange may open more than two series in an expiration month if, in its opinion, it would be beneficial to the market.~~

DELETION

~~a) Whenever the Exchange determines that an underlying interest previously approved for Exchange options transactions does not meet the requirements for continued approval or for any other reason should no longer be approved, it may decide not to open for trading any additional series of the class covering the underlying interest and to prohibit any opening purchase transactions in already existing series of that class.~~

~~b) When, in the case of equity options, the issuer has failed to make timely reports as required by articles 9153 to 9171 of the Exchange Rules.~~

- ~~e) Such action shall not be taken without regard to the necessity of maintaining a fair and orderly market and to the protection of purchasers and writers of option contracts.~~
- ~~d) Without limiting the generality of the foregoing, the Exchange may delete specific series of any class of options when:
 - ~~i) the series have no open interest;~~
 - ~~ii) if both puts and calls are traded, a call series may only be deleted if the corresponding put series satisfies the criteria for deletion, and vice versa;~~
 - ~~iii) the series are deep in the money or deep out of the money and there is no other series which is as deep in the money or as deep out of the money with a later expiration date and has open interest.~~~~

6606 Opening of Additional Series
(10.11.92, 00.00.00)

~~Additional series of a class of options~~Once a class of options has been approved for listing and trading by the Bourse, the Bourse -may, from time to time, in its discretion, be introduced for trading additional series of options~~for trading by the Exchange when the price of the underlying interest has moved materially.~~

6394 Introduction and Deletion of Classes and Series of Options
(29.10.01, 00.00.00)

a) Introduction. Before submitting a formal application to the Clearing Corporation for the introduction of a new class of options, the Bourse shall be satisfied that the following conditions are met:

- 1) the liquidity of the options market on the Bourse is not unduly reduced by reason of such addition;
- 2) the symbol for such option has been determined;
- 3) the date that trading shall begin has been determined; and

4) Additional requirements applicable for equity and ETF options. The following conditions, in addition to the conditions in paragraphs 1), 2) and 3), shall apply to the introduction of equity and ETF options:

- i) the new option series should be introduced in such a manner as to enable the proper functioning of the spread process within the new series; and
- ii) the Bourse shall open at least two series in each expiration month, so that the exercise of one series is above, and one is below, the price per unit of the underlying interest; *provided however*, the Bourse may, in its discretion, open more than two series in an expiration month if it determines that doing so would be beneficial to the market.

b) Deletion. Whenever the Bourse determines that an underlying interest previously approved for options transactions on the Bourse does not meet the requirements for continued approval or for any other reason should no longer be approved, it may decide in its discretion not to open for trading any additional series of the class covering the underlying interest and to prohibit any opening purchase transactions in already existing series of that class. In making its determination, the Bourse shall take into consideration namely the following factors:

- 1) the necessity of maintaining a fair and orderly market and to ensure the protection of purchasers and writers of option contracts.
- 2) the fact that specific series of any class of options has no open interest, and.
- 3) Additional considerations applicable for equity and ETF options. The following additional factors in addition to the factors in paragraphs 1) and 2) shall apply to the deletion of equity or ETF options:
 - i) whether the issuer has failed to make timely reports as required by the rules where the underlying interest is traded;
 - ii) if both Puts and Call have been opened for trading, corresponding Puts and Calls satisfy the deletion criteria; and

iii) the series are deep-in-the-money or deep-out-of-the-money and there is no other series which is as deep-in-the-money or as deep-out-of-the-money with a later expiration date and has open interest.

6605 Introduction and Deletion of Classes and Series of Options
(10.11.92, 07.09.99, abr.00.00.00)

6606 Opening of Additional Series
(10.11.92, 00.00.00)

Once a class of options has been approved for listing and trading by the Bourse, the Bourse may, from time to time, in its discretion, introduce for trading additional series of options.