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**CIRCULAR**  
**October 11, 2011**

**REQUEST FOR COMMENTS**

**AMENDMENTS TO EQUITY AND EXCHANGE TRADED FUND OPTIONS  
SPECIFICATIONS**

**OPENING OF REGULAR SESSION AT 9:30 AM**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the amendments to the equity and exchange-traded fund options specifications to reflect the opening of the Regular Trading Session at 9:30am EST.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **November 10, 2011**. Please submit your comments to:

*Mr. François Gilbert*  
*Vice-President, Legal Affairs, Derivatives*  
*Bourse de Montréal Inc.*  
*Tour de la Bourse*  
*P.O. Box 61, 800 Victoria Square*  
*Montréal, Quebec H4Z 1A9*  
*E-mail: legal@m-x.ca*

Circular no.: 157-2011

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

*Ms. Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800 Victoria Square, 22<sup>nd</sup> Floor  
P.O. Box 246, Tour de la Bourse  
Montréal (Quebec) H4Z 1G3  
E-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)*

## **Appendices**

For your information, you will find in appendices an analysis of the proposed amendments as well as the amended equity and exchange-traded fund options specifications. 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* (R.S.Q., 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 (R.S.Q., chapter I-14.01).

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## AMENDMENTS TO EQUITY AND EXCHANGE TRADED FUND OPTIONS SPECIFICATIONS

### OPENING OF REGULAR SESSION AT 9:30 AM

#### I. Introduction

The Bourse proposes to automate the opening of the Regular Trading Session for all equity and exchange-traded fund option classes at 9:30am, in line with the opening time of their underlying securities.

#### II. Detailed Analysis

##### A. Rationale

The Bourse proposes to open the Regular Trading Session of the Bourse’s options market at 9:30am, in order to allow for greater consistency and reliability for market participants.

Commencing the Regular Trading Session for equity and exchange-traded fund options at 9:30am along with other North American stock exchanges and derivatives exchanges, instead of the current opening time of 9:35am, would make the Bourse more consistent with the North American options market. It might also encourage participants in the Canadian derivatives market to execute their interlisted options trades through the Bourse, rather than through American competitors.

The regular session of the equity option market would open at 9:30am. Each individual option class would be automatically opened for trading once a trade has been executed on the underlying security on a Canadian recognized exchange. If no trade has been executed on the underlying security, on a Canadian recognized exchange, the option class would then be automatically opened for trading at 9:35am. Until such time as an option class has been opened for trading, the option class will remain in a pre-opening phase, during which both orders and quotes could be entered or cancelled, and no trading would be permitted.

##### B. Benchmarking

Exchange	ISE	NYSE Arca	BOX	The Bourse
Regular Session Open	9:30am EST	9:30am EST	9:30am EST	9:35am EST

### **III. Proposed Regulatory Amendments**

#### **A. Amendments to the Specifications**

The Bourse proposes to amend the equity and exchange-traded fund options specifications to reflect the opening of the Regular Trading Session at 9:30am EST.

### **IV. Objectives and Consequences**

Lengthening the Bourse's trading hours would benefit Canadian equity and exchange-traded fund option markets by increasing liquidity for both Canadian and interlisted option classes.

With an average daily trading volume on MX for equity and exchange-traded fund options of 107,167 for the months of January to April 2011 inclusive, which amounts to an average volume of 278 per minute; a five minute increase in the trading day could bring this average daily trading volume for equity and exchange-traded fund options up to 108,559, an increase of 1.3%. Furthermore, as equity markets tend to be significantly more active at the opening of the trading day, an even greater increase in trading volumes could be anticipated with the proposed opening time.

This proposal could also improve the international reputation of the Bourse by coordinating the options market opening in conjunction with the opening of other North American equity and derivatives exchanges.

### **V. Public Interest**

Moving the opening of the Bourse's Regular Trading Session for equity and exchange-traded fund options to 9:30am EST so as to be consistent with other North-American derivatives exchanges would benefit market participants by giving them the ability to choose where they wish to place their orders on interlisted options for the first five minutes of the North American equity trading day, i.e. from 9:30am to 9:35am EST.

This would also allow the holders of Canadian equity and exchange-traded fund options which are not interlisted the ability to execute transactions during the opening minutes of the North American equity trading day.

Market makers have long requested that the Bourse commence trading on equity and exchange-traded fund options at 9:30am instead of 9:35am, stating that if the Bourse did open option trading at 9:30am, transactions that are currently executed through competing American exchanges would be executed on the Bourse instead.

### **VI. Process**

The proposed modifications, including this Analysis, are to 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.

## **VII. References**

NYSE Arca Trading Hours

<http://globalderivatives.nyx.com/en/nyse-arca-options-%E2%80%93-trading-hours>

ISE Trading Hours

[http://www.ise.com/assets/documents/AboutISE/PressRelease/CompanyNews/2010//20100426\\$ISE\\_Extends\\_Trading\\_Hours\\_for\\_its\\_ISE\\_FX\\_Options\\_Products.pdf](http://www.ise.com/assets/documents/AboutISE/PressRelease/CompanyNews/2010//20100426$ISE_Extends_Trading_Hours_for_its_ISE_FX_Options_Products.pdf)

BOX Trading Hours

[http://www.bostonoptions.com/tradingCycle\\_en](http://www.bostonoptions.com/tradingCycle_en)

The Bourse – Trading Hours and Stages

[http://www.m-x.ca/f\\_publications\\_en/tradinghoursphases\\_en.pdf](http://www.m-x.ca/f_publications_en/tradinghoursphases_en.pdf)

## **VIII. Documents Attached**

- Specifications for Equity Options.
- Specifications for ETF Options.

## EQUITY OPTIONS

# Specifications

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**Trading Unit**

100 shares of companies eligible for option listing.

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**Contract Months**

Listing under short cycle (the next three consecutive calendar months). Equity options classes will move from the short cycle to the regular full cycle depending on a daily average volume.

Regular full cycle: two nearest months plus two quarterly months as defined in the [expiry cycle](#) (.pdf).

Annual expiry of January for terms of one year or greater (long term).

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**Price Quotation**

Quoted in Canadian currency.

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**Last Trading Day/Expiration**

Equity options trading ceases on the 3rd Friday of the contract month, providing it be a business day; if not, the 1st preceding day. Options will expire on the Saturday following the last trading day.

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**Contract Type**

American style. Exercise is carried out via the Canadian Derivatives Clearing Corporation (CDCC) and delivery is carried out via the CDS Clearing and Depository Services Inc., on the 3rd business day following the exercise date.

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**Price Fluctuation**

- Minimum fluctuations of C\$0.01 for option price lower than C\$0.10.
- Minimum fluctuations of C\$0.05 for option price equal or higher than C\$0.10.

The premium per contract is obtained by multiplying the quote by 100 (ex.: quote of C\$2.75 X 100 = C\$275).

**Since July 27, 2007, certain options classes are subject to new minimum quotation spreads. For more information on penny trading, refer to [circular 048-11](#).**

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**Strike Prices**

5 exercise prices bracketing the current underlying market price.

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**Reporting Limit**

250 option contracts.

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**Price Limits**

A trading halt will be invoked in conjunction with the triggering of "circuit breakers" in the underlying.

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**Trading Hours (Montréal time)**

9:30<sup>05</sup> a.m. to 4:00 p.m.

The regular session of the equity option market will open at 9:30am. Each option class will then open for trading when a trade occurs on its underlying security on a recognized Canadian exchange. If no such trade has yet occurred, the option class will open for trading at 9:35am.

## OPTIONS ON ETFs

# Specifications

<b>Trading Unit</b>	100 shares of one of the exchange-traded funds.
<b>Contract Months</b>	<p>Nearest three months plus the next two months in the designated quarterly cycle March, June, September and December.</p> <p>Annual expiry of March (long term).</p>
<b>Price Quotation</b>	Quoted in Canadian currency.
<b>Last Trading Day/Expiration</b>	Trading ceases on the 3rd Friday of the contract month, providing it be a business day; if not, the 1st preceding day. Options will expire on the Saturday following the last trading day.
<b>Contract Type</b>	American style. Exercise is carried out via the Canadian Derivatives Clearing Corporation (CDCC) and delivery is carried out via the CDS Clearing and Depository Services Inc., on the 3rd business day following the exercise date.
<b>Price Fluctuation</b>	<ul style="list-style-type: none"><li>• C\$0.01 for premiums of less than C\$0.10</li><li>• C\$0.05 for premiums of C\$0.10 and up</li></ul> <p><b>For more information on penny trading, refer to <a href="#">circular 048-11</a>.</b></p>
<b>Strike Prices</b>	<ul style="list-style-type: none"><li>• Set at a minimum of C\$0.50 intervals</li><li>• Set at a minimum of C\$1.00 intervals (long term)</li></ul>
<b>Reporting Limit</b>	500 contracts on the same side of the market in all contract months combined.
<b>Price Limits</b>	A trading halt will be invoked in conjunction with the triggering of "circuit breakers" in the underlying stocks.
<b>Trading Hours (Montréal time)</b>	9:30 <del>5</del> a.m. to 4:00 p.m.

The regular session of the equity option market will open at 9:30am. Each option class will then open for trading when a trade occurs on its underlying security on a recognized Canadian exchange. If no such trade has yet occurred, the option class will open for trading at 9:35am.