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CIRCULAR
December 5, 2012

REQUEST FOR COMMENTS

**LISTING OF NEW OPTION EXPIRATIONS:
WEEKLY OPTIONS**

**AMENDMENT TO ARTICLE 6637 OF RULE SIX
OF BOURSE DE MONTRÉAL INC.**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the amendments to Article 6637 of Rule Six of the Bourse in order to list weekly options and to meet the needs of retail and institutional clients. Weekly options will be listed on certain classes of equity, stock index and exchange-traded fund (ETF) options.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **January 7, 2013**. Please submit your comments to:

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

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
E-mail: consultation-en-cours@lautorite.gc.ca

Circular no.:161-2012

Tour de la Bourse
P.O. Box 61, 800 Victoria Square, Montréal, Québec H4Z 1A9
Telephone: 514 871-2424
Toll-free within Canada and the U.S.A.: 1 800 361-5353
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Appendices

For your information, you will find in appendices an analysis of the proposed amendments and amended Rule Six of the Bourse. 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 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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LISTING OF NEW OPTION EXPIRATIONS: WEEKLY OPTIONS

AMENDMENTS TO ARTICLE 6637 OF RULE SIX

I. Introduction

Bourse de Montréal Inc. (the “Bourse”) proposes to list weekly options (“Weeklies”) to meet the needs of retail and institutional clients and to remain competitive with international option exchanges that currently offer this type of option product. Weekly options will be listed on certain classes of equity, stock index and exchange-traded fund (ETF) options.

Weekly options are identical to monthly options and are traded the same way, with the exception that they exist only for a period of eight (8) days. They are listed for trading every Thursday and expire eight (8) days later, or the Friday of the following week. Therefore, they offer investors 40 expirations per year on certain option classes, instead of the 12 expirations offered by traditional monthly options.

To allow for the listing of weekly options, the Bourse proposes to amend article 6637 in regards to the expiration date.

II. Detailed Analysis

A. Rationale

New Strategies for Options Market Participants

The listing of new weekly options is aimed at increasing the effectiveness of hedging and directional strategies for the Bourse’s options market, in addition to providing new trading opportunities.

Generally, the premium of a weekly option will be less than that of a monthly option due to the fact that, since its life span is much shorter, its time value is lower¹. Due to this lower premium, weekly options will allow market participants to benefit from hedging or trading tools that may be less costly and more effective in certain circumstances. Thus, for example, if a portfolio manager wishes to maintain a long stock position (in order to retain the right to dividends) without being significantly affected by the blips associated with a disclosure of financial results, weekly options will enable him to execute a hedge transaction at lower cost.

Speculators can also benefit from weekly options, by taking advantage of a very significant *delta/gamma* effect (sensitivity of the option price to fluctuations in the underlying) resulting in strong variations in the option premium during major fluctuations in the underlying asset. Also, due to their limited life span, weekly options can allow investors to optimize certain strategies. For example, in the case of a covered call

¹ The time value of an option is the portion of the option premium representing the time remaining before the expiration of the option contract. The time value is strongly influenced by, among other factors, the number of days before option expiration.

writing strategy², the portfolio manager implementing such a strategy can, by using weekly options, enhance the performance of this strategy. In fact, rather than implementing this strategy once a month or once a quarter with regular traditional options expiring on the third Friday of the month, he will be able to renew the strategy every week in order to collect the option premium every Friday of the month.

While the premium of a weekly option is generally lower than that of a regular option, some portfolio managers will prefer to use this strategy on a weekly basis in order to reduce the risk associated with fluctuations in the underlying over the time remaining before option expiration. It should be noted that the impact of theta (variation in the option price in relation to a variation in the time remaining to expiration) is significant in the case of weekly options. In fact, due to the fact that the expiration period for weekly option is very short, the seller of such an option will benefit from the rapid decline in the option's time value.

Offer Adapted to North American Context

Many Canadian securities are now the subject of weekly options listed on the American market. With the listing of weekly options at the Bourse, participants will now be able to trade these highly popular options in Canadian currency in the home market where the underlying stock is listed.

Table I: Sampling of Option Classes on Canadian Underlying Listed in the United States

<i>Name</i>	<i>Symbol</i>	<i>Total U.S. Options Average Daily Volume (ADV) Jan-Sept 2012*</i>
Barrick Gold Corporation	ABX	31 915
Potash Corporation of Saskatchewan	POT	28 027
Research in Motion Limited	RIMM	80 057
Silver Wheaton Corp.	SLW	21 363
Suncor Energy Inc.	SU	7 580
TOTAL ADV		168 942

*Source : Bloomberg L.P.

The OCC (Options Clearing Corporation) estimates the volume of weekly options in the United States at 11.7% of the total options volume for the first eight (8) months of 2012³.

B. International Analysis of Weekly Options

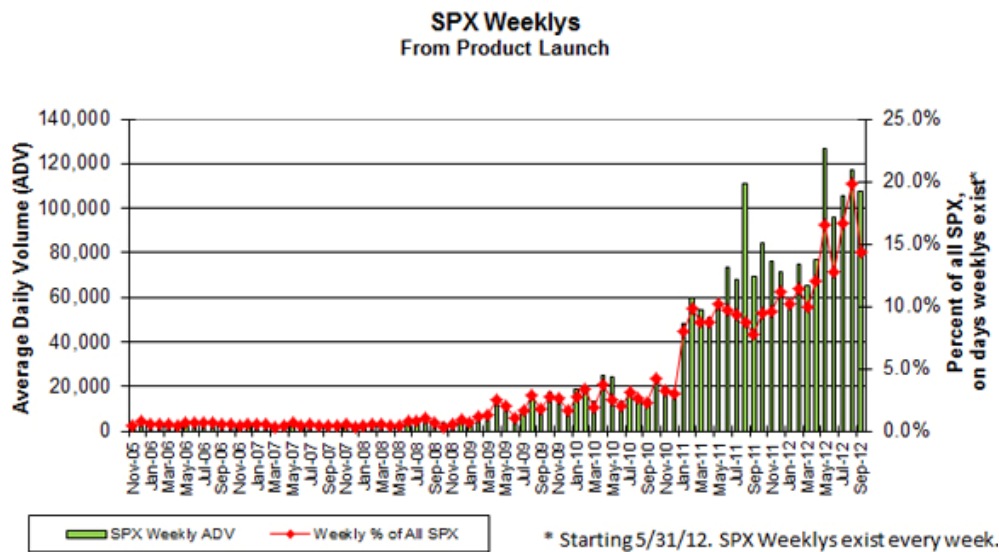
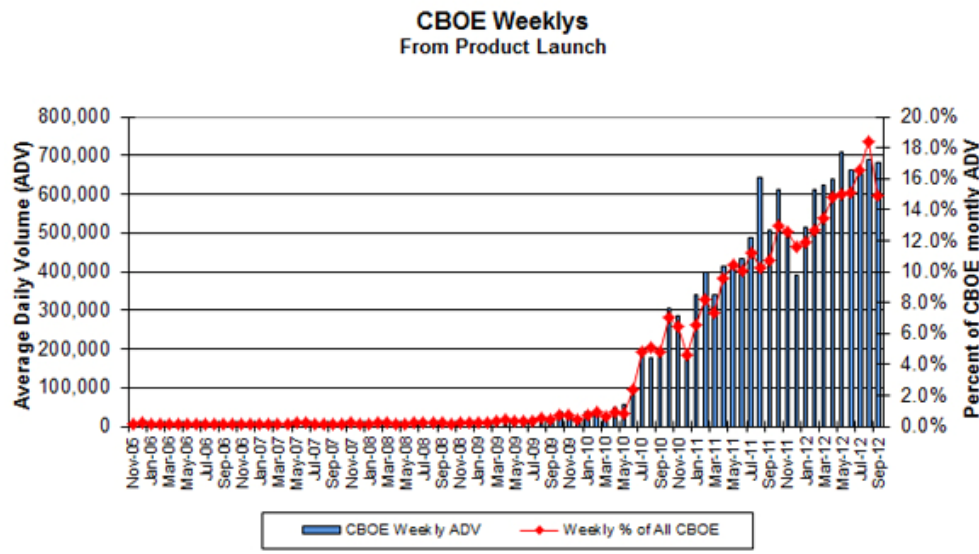
The graphs below illustrate the volume and growth of the market share of weekly options on the S&P 500 Index, as well as on all products available at the Chicago Board Options Exchange (CBOE). It should be noted that the CBOE was the first U.S. exchange to list weekly options in October 2005, as part of a pilot project that became permanent following approval by the U.S. Securities and Exchange Commission (SEC)⁴.

² For further information on this strategy, please refer to the following link:
http://www.m-x.ca/f_publications_en/options_strat4_en.pdf

³ Source: Futures Industry Magazine - November 2012 - Standing Appointment: Weeklys Lift Options Market by Rachel Koning Beals.

⁴ Please consult the following links for further information on the SEC's approval of the Short Term Option Series program (the "Weeklys Program"): <http://www.sec.gov/rules/sro/cboe/2009/34-59824.pdf>

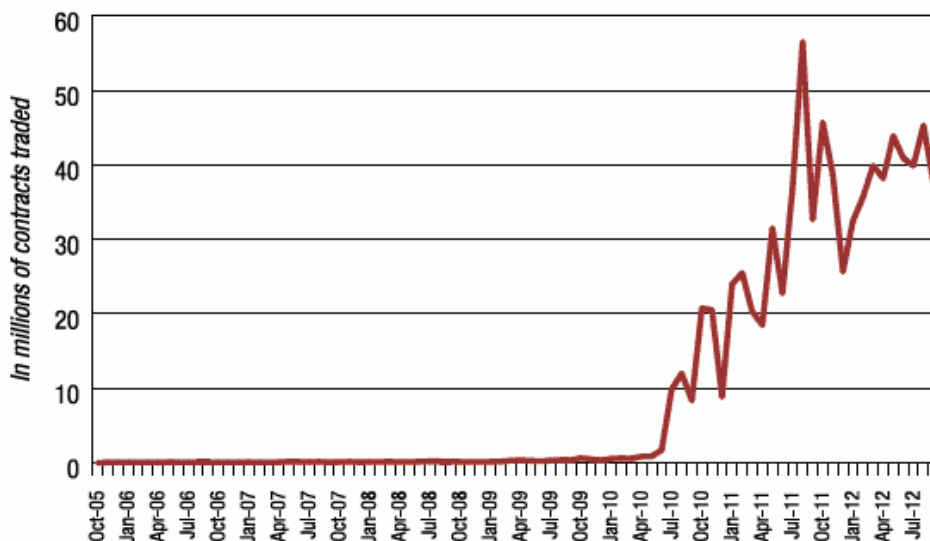
Tables II & III: Volume and Growth of Market Share of Weekly Options on All Products Available at CBOE and on S&P 500 (SPX) Index.



Source: CBOE - www.cboe.com/micro/weeklys

The graphs above show the sharp increase in the popularity of weekly options over the past two years. According to the two tables, since the beginning of 2012, weekly options listed at CBOE represent 15% of the total options volume.

Table IV: Volume of Weekly Options Contracts Traded by All U.S. Derivatives Exchanges



Source: Tabb Group; Futures Industry Magazine, November 2012

It should be noted that in the United States, weekly options are based on nearly one hundred equity, ETF and stock index options classes.

C. Impact of Proposed Amendments on Systems

The proposed changes will have no impact on the Bourse’s technological systems, Approved Participants or other market participants. However, clearing members will be affected by the proposed changes.

III. Proposed Regulatory Amendments

A. Listing and Expiration Cycle for Weekly Options

The Bourse proposes to list weekly options with characteristics similar to those of regular options, except for the listing and expiration cycle.

Table V: Cycle of Weekly Options

Underlying	New Listing	Last Trading Day	Expiration
Equity, ETF and index options	Thursday, at the opening of the market, of every week, excluding the 2nd Thursday of the month	Equity and ETF options: Friday following the listing week Index options: Thursday following the listing week	Friday following the listing week

Table VI: Weekly Options Specifications

WEEKLY OPTIONS	SPECIFICATIONS
TRADING UNIT	Same as for regular options
UNDERLYING	Equity, ETF and index: according to the list of available underlying assets
LISTING AND LAST TRADING DAY	Weekly options are listed every Thursday at the opening of the market, except for the Thursday where contract expiration corresponds to the 3rd Friday of the month or, if it is not a business day, the 1st previous business day. The last trading day for equity and ETF weekly options corresponds to the Friday of the week following the listing or, if it is not a business day, the 1st previous business day. The last trading day for index options corresponds to the Thursday of the week following the listing, or if it is not a business day, the 1st previous business day.
EXPIRATION	<p>Equity and ETF: The expiration date corresponds to the last trading day, which is the Friday of the week following the listing or, if it is not a business day, the 1st previous business day.</p> <p>Index: The expiration date corresponds to the day following the last trading day, which is the Thursday of the week following the listing, or if it is not a business day, the 1st previous business day.</p>
STRIKE PRICE AND MINIMUM INTERVAL	<p>Equity and ETF: The strike prices and the minimum interval are determined by the Bourse.</p> <p>Index: Minimum interval of 2.5 index points</p>
TYPE OF CONTRACT	<p>Equity and ETF: American-style. The strike is executed through the Canadian Derivatives Clearing Corporation (CDCC) and delivery is carried out by CDS Clearing and Depository Services Inc., on the 3rd business day following the strike notice.</p> <p>Index: European-style. Cash settlement. Final settlement takes place during the official index opening on the expiration day.</p>
FLUCTUATION UNIT	Same as for regular options
REPORTING THRESHOLD AND POSITION LIMITS	Same as for regular options
TRADING HOURS (Montreal time)	<p>Equity and ETF: 9:30 a.m. to 4 p.m.</p> <p>Index: 9:31 a.m. to 4:15 p.m.</p>

B. Rule Regarding Expiration Date - Article 6637 of Rule Six

The Bourse proposes to amend article 6637 regarding the expiration date.

The new provision of the article concerned shall read as follows:

Article 6637 b):

“In the case of equity options, bond options and exchange-traded fund options other than weekly options, the expiration date shall be the Saturday following the third Friday of the expiration month.

In the case of index options, the expiration date shall be the third Friday of the contract month or, if the index is not published that day, the first day preceding that on which the index is to be published.

In the case of futures options, the expiration date shall be the last trading day.

In the case of currency options, the expiration date shall be the third Friday of the expiration month. However, if the exchange rate set by the Bank of Canada is not published that day, the expiration date shall be the first trading day preceding that on which the Bank of Canada exchange rate is to be published.

In the case of weekly equity and exchange-traded options, the expiration date shall correspond to the last trading day, which is the Friday of the week following the listing or, if it is not a business day, the first preceding business day.

In the case of weekly index options, the expiration date shall correspond to the day following the last trading day, which is the Thursday of the week following the listing, or it is not a business day, the first preceding business day.”

IV. Public Interest

The establishment of a stock index, ETF and equity weekly options market will allow institutional and retail investors to benefit from effective risk management tools.

V. 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.

6637 Expiration Date

(06.08.86, 20.03.91, 17.12.91, 10.11.92, 07.04.94, 07.09.99, 11.02.00, 28.01.02,
26.09.05, 00.00.00)

- a) No transaction of options contracts in expiring series shall be made after the close of trading on the last day of trading.
- b) In the case of equity options, bond options and ~~options on index participation units, exchange-traded fund options other than weekly options~~, the expiration date shall be the Saturday following the third Friday of the expiration month.

In the case of index options, the expiration date shall be the third Friday of the contract month or, if the index is not published on that day, the first preceding trading day for which the index is scheduled to be published.

In the case of futures options, the expiration date shall be the last trading day.

In the case of currency options, the expiration date shall be the third Friday of the expiration month. ~~or-However,~~ if the Bank of Canada exchange rate fixing is not published on that day, the expiration date shall be the first preceding trading day for which the Bank of Canada exchange rate fixing is scheduled to be published.

In the case of weekly equity and exchange traded fund options, the expiration date shall correspond to the last trading day, which is the Friday of the week following the listing or, if it is not a business day, the first preceding business day.

In the case of weekly index options, the expiration date shall correspond to the day following the last trading day, which is the Thursday of the week following the listing or, if it is not a business day, the first preceding business day.

- c) In the case of sponsored options, the expiration date is determined by the sponsor as per the information provided to investors and the Bourse or as provided in the product documentation and set out in article 6643 of the Rules of the Bourse.