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The Montréal Exchange (MX) is Canada's financial exchange for trading futures and options. Part of TMX Group, MX offers a wide range of derivatives products covering major market segments such as equities, indices, currencies and interest rates.

Clearing, settlement and risk management services are provided by the Canadian Derivatives Clearing Corporation (CDCC). As a central counterparty (CCP), CDCC provides integrity and stability to the Canadian derivatives market by acting as the buyer to every seller and as the seller to every buyer, thereby eliminating counterparty risk. CDCC also applies rigorous risk management procedures to protect its Clearing Members and indirectly, their clients, against extreme, but plausible market events. Margin requirements are calculated using SPAN<sup>®</sup>, the most widely used risk management calculation tool by CCPs around the world. In the event that a Clearing Member is unable to meet its obligations,

CDCC uses resources at its disposal in the form of highly liquid assets to offset any deficit incurred as a result of such default. CDCC is AA rated by Standard and Poor's.

In addition to providing the cost-effectiveness and leverage common to all derivatives, index futures and options enable investors to execute efficiently a trade on MX's SOLA<sup>®</sup> trading platform, simplifying trading and investment strategies while providing the security and risk reduction of diversification. SOLA offers the additional advantage of a strict price/time (FIFO) order priority trade matching methodology. This platform has proven itself in providing derivative investors with a transparent, liquid, and easy-to-access marketplace for all options and futures listed on MX.

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1. SPAN<sup>®</sup> is a trademark owned by the CME Group Inc.

## Overview of Index Products

In September 1999, MX listed its first index futures and options contracts on the S&P/TSX 60<sup>™</sup> Index. The offering has since evolved to include other Canadian indices.

Index futures and options are contracts whose value closely follows the price level of their underlying indices—providing management of equity market risks and trading opportunities for both institutional and retail investors. In partnership with Standard & Poor's, a global leader in index construction and maintenance, MX's index offering includes:

### Broad-based indices

- S&P/TSX 60<sup>™</sup> Index Standard Futures (SXF<sup>™</sup>)
- S&P/TSX 60<sup>™</sup> Index Mini Futures (SXM<sup>™</sup>)
- S&P/TSX Composite<sup>™</sup> Index Mini Futures (SCF<sup>™</sup>)
- S&P/TSX 60<sup>™</sup> Index Options (SXO<sup>™</sup>)

### Sector indices

- S&P/TSX Global Gold<sup>™</sup> Index Futures (SXA<sup>™</sup>)
- S&P/TSX Capped Financials<sup>™</sup> Index Futures (SXB<sup>™</sup>)
- S&P/TSX Capped Energy<sup>™</sup> Index Futures (SXY<sup>™</sup>)
- S&P/TSX Capped Information Technology<sup>™</sup> Index Futures (SXH<sup>™</sup>)

## S&P/TSX 60 Index Standard Futures (SXF)

SXF is a futures contract on the S&P/TSX 60 Index, which is a benchmark capitalization-weighted equity index of the 60 largest companies in Canada that have the most liquid stocks.

### How can I use these futures?

- An investor who anticipates a rise in stock prices and wishes to increase his or her exposure to the Canadian equity market, but lacks the funds for an outright purchase of the shares, could take a long position in SXF futures.
- A holder of a stock portfolio may feel that the market is overvalued with a correction looming. The holder could sell SXF futures in order to protect the portfolio from market risk.
- Futures can be used to rebalance a portfolio. If the stock market has risen and assets are now over-allocated towards equities, as compared to bonds or cash, SXF futures could be sold to bring the portfolio in line with its target allocation. The alternative would be costly since it requires the liquidation and rebalancing of assets, which may entail unfavourable tax consequences.
- Institutional investors will sometimes receive a one-time windfall of cash. This amount could be “parked” by buying SXF futures and risk-free instruments, thereby keeping a certain exposure to the equity market while waiting for a suitable opportunity to use the funds.

## S&P/TSX 60 Index Mini Futures (SXM)

SXM futures are also based on the S&P/TSX 60 Index. The SXM futures represents one quarter of the trading unit of its larger sized parent contract, the SXF.

### How can I use these futures?

- The miniature sized SXM futures allow market participants to fine tune SXF futures hedges.
- Small investors, including retail traders, sensitive to margin costs could use SXM futures to reduce capital outlays. In fact, compared to SXF futures, SXM margins are reduced by factor of four as well.
- Participants could execute cross-market arbitrage trading between the SXM and SXF futures when their prices are not aligned. This operation is possible since both contracts are identical, except for their size. An arbitrageur could purchase the undervalued contract and sell (for the same notional value) the overvalued contract in order to generate an almost risk-free profit. This operation would bring the prices of both futures to equilibrium.
- The SXM and SXF futures contracts are fungible with a 4:1 ratio (*Request for Standard vs Mini Offset*). This means that a participant can close out an SXF position with four opposite positions in the SXM contract having the same expiry.

## S&P/TSX Composite Index Mini Futures (SCF)

SCF futures are based on the S&P/TSX Composite Index, the headline indicator of market activity and principal broad market measure for Canadian equity markets since 1977. The index covers nearly 95% of the market capitalization for Canadian-based, Toronto Stock Exchange listed companies. (source: Standard & Poor's, *S&P/TSX Composite Index Fact Sheet*, December 31, 2010)

### How can I use these futures?

- Portfolio managers benchmarked to the S&P/TSX Composite Index and currently using over-the-counter (OTC) index derivatives based on the S&P/TSX Composite Index could hedge their risk exposure with SCF futures.
- An individual investor with reduced capital and with a diversified stock portfolio that is highly correlated to the S&P/TSX Composite Index could protect his or her portfolio against the impact of a short-term bearish market by selling SCF futures.
- Speculators, proprietary traders and hedge funds could trade SCF futures to manage directional trading and to execute spread trades against other benchmark broad based stock indices and sector indices.
- Market participants could arbitrage the market by trading the spread between the S&P/TSX 60 Index futures and the S&P/TSX Composite Index Mini futures.

## Sector Index Futures (SXA, SXB, SXH, SXY)

Sector index futures are contracts that closely follow the level of S&P/TSX indices on select sectors of the Canadian economy, namely:

- S&P/TSX Capped Information Technology Index
- S&P/TSX Capped Financials Index
- S&P/TSX Capped Energy Index
- S&P/TSX Global Gold Index

Each of these indices tracks a particular basket of stocks of companies whose primary activities are in the index's specific economic sector. Capped indices covering sectors are calculated from the S&P/TSX Composite Index.

### How can I use these futures?

- To individual investors holding portfolios reflecting an exposure to the overall market, selling sector index futures allows for protection against a downturn in a given market sector.
- Sector index futures offer opportunities to individual investors wishing to target one sector against another. While it is quite onerous to purchase sufficient stocks to represent an entire sector, sector index futures could be purchased and sold quite efficiently and inexpensively.
- While portfolio managers will generally seek an optimal asset allocation between equities, bonds and cash, and will spend a great deal of resources on rebalancing their holdings, they must also seek an optimal allocation of assets within their equity holdings. Sector index futures could accomplish these goals as managers can easily sell one market sector while buying another.
- Futures contracts based on Canadian sector indices provide asset managers and hedgers with a simple, efficient and cost-effective way of implementing trading strategies based upon select sectors of the Canadian economy. Index overlay strategies are increasingly popular as a means of adding value to core portfolios. Sector rotation strategies, as well as position neutral hedge strategies based upon sector selection, also favour the use of index-related investment products. Sector futures could also complement cash-based investment strategies using exchange-traded funds, cash baskets and asset swaps.

## S&P/TSX 60 Index Options (SXO)

SXO options on the S&P/TSX 60 Index provide investors a wide array of alternatives to protect their equity portfolios and to enhance returns.

SXO index option prices are also used to compute the S&P/TSX 60 VIX® Index (VIXC), which seeks to measure the 30-day volatility of the Canadian stock market derived from SXO option prices.

### How can I use these options?

- The holder of a stock portfolio could minimize his or her exposure to the market by buying SXO puts, which will act as an insurance policy to compensate for a drop in stock prices.
- Institutional portfolio managers may find that continuously buying puts to reduce risk is too expensive over the long term as they must offer

competitive returns to their clients. To offset this cost, they could sell SXO calls while buying SXO puts, essentially creating a “collar”. The advantage of this strategy is to reduce the cost of buying puts with the premium collected by selling calls.

- Holders of stock portfolios could also generate additional income and enhance returns by writing SXO calls.
- Investors could profit from changes in the volatility of options prices by trading the expected (implied) volatility against the realized volatility.
- Investors may also wish to trade options in anticipation of future directional changes in stock prices instead of the shares themselves (use of leverage).

## Executing Large-Sized Transactions on Index Derivatives – Wholesale Facilities

Institutional clients and investors have access to a range of execution possibilities for large transactions (wholesale facilities) on index derivatives.

### Cross Transactions

A cross transaction occurs when two orders of opposite sides originating from the same approved participant are intentionally executed against each other, in the context of the market, in whole or in part as a result of pretrade discussions. Participants must respect time delay and chronology of orders.

#### Benefits of cross transactions

- Ability to execute two opposite orders intentionally against each other at a pre-negotiated price (transactions allowed between two customer accounts or the firm and a customer account).

- Quick execution of matching orders.
- Zero-second crossing facility for index options.

### Exchange for Physical (EFP)

An EFP involves simultaneous transactions in the cash and futures markets. In an EFP, one party buys an acceptable cash market position and simultaneously sells the futures contract while the other party sells this acceptable cash market position and simultaneously buys this futures contract. The parties to an EFP privately negotiate the price of the futures position and the value of the cash commodity to be exchanged. Once the price and quantity of the futures have been set by the parties and an EFP has been accepted for clearing, the futures margin and delivery or settlement obligations of the parties arising from an EFP are not distinguishable from those executed competitively on the trading platform.

### Benefits of EFPs

- Exchange a futures market exposure for an offsetting underlying cash market exposure.
- Allow choice of counterparty, thereby reducing risk of non-performance by the opposite party.
- Limit risk by doing a transaction after the regular trading hours of the futures market.
- May free up capital allowing parties to benefit from other opportunities while maintaining equity market exposure.
- Allow your clients to avoid additional margin obligations or can be used as a vehicle to cover market position against overnight price changes.

### Exchange for Risk (EFR)

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

### Benefits of EFRs

- Exchange a futures market position for an OTC market position.
- Quick and efficient execution of a futures transaction.
- Facilitation of varying size futures transactions at a single price.
- Improved effectiveness of non-traditional hedging program.
- Enhanced financial integrity of OTC hedging program.

### Riskless Basis Cross

A riskless basis cross is a trade where an approved participant and a client engage in pretrade discussions to agree upon the terms of a transaction on index futures contracts to take place outside the MX's electronic trading system. The trade must include the acquisition of a cash market position by the approved participant. The terms agreed upon also include the required amount of index exposure and the basis spread between the average price of the cash exposure acquired by the approved participant and the index futures contracts that will be crossed to the client. Approved participant's final position is riskless and does not impact the cash market.

### Benefits of riskless basis cross

- A good alternative for clients who cannot or do not want to hold cash securities in their accounts but who wish to acquire market exposure in the most efficient way possible (either on the cash or ETF markets).
- Allows participants to use the attributes of the underlying cash market to take the market position requested by a client and then to replicate it through the use of index futures contracts – leaving participants with no resulting market position and the client with an index futures position.

All these transactions are privately negotiated trades and are executed outside the competitive electronic order book, but submitted for clearing through CDCC. They represent an efficient way to reduce and control risks, costs and margins—without disrupting the marketplace.

## Settlement of Index Derivatives

For index futures, the accounts of the buyer and the seller are credited and debited every day according to the variation between the current day's settlement price and the previous day's settlement price (or the original trade price in the case of the first day's settlement). If the current day's settlement price is higher than the previous day's, the buyer of the futures will see his account credited with the amount of the variation times the multiplier of the futures, and the seller's account will be debited this amount. The opposite is true if the price of the futures drops.

In the case of an index option, the cash amount resulting from the difference between the index level of the contract at the expiration and the in-the-money

option's strike price will be delivered by the seller of the contract (the short position holder) to the buyer of the contract (the long position holder).

All trades are cleared by a central entity, the Canadian Derivatives Clearing Corporation (CDCC). CDCC is a financially solid institution, which takes on the responsibility of buying from sellers and selling to buyers of index futures and options traded on MX, which eliminates the risk of a defaulting counterparty.

## SXF - S&P/TSX 60 Index Standard Futures

<b>Underlying</b>	The S&P/TSX 60 Index is a capitalization-weighted index of the 60 largest and most liquid stocks listed on the Toronto Stock Exchange.
<b>Contract Size</b>	C\$200 times the level of the S&P/TSX 60 Index Futures
<b>Contract Months</b>	March, June, September and December.
<b>Price Quotation</b>	The contract is quoted in index points, expressed to two decimals.
<b>Minimum Price Fluctuation</b>	<ul style="list-style-type: none"> <li>• 0.10 index point for outright positions</li> <li>• 0.01 index point for calendar spreads</li> </ul>
<b>Last Trading Day</b>	The trading day prior to the Final Settlement Day.
<b>Final Settlement Day</b>	The 3 <sup>rd</sup> Friday of the contract month, providing it be a business day; if not, the 1 <sup>st</sup> preceding business day.
<b>Contract Type</b>	Cash settlement. The final settlement price is the Official Opening Level of the underlying index to the Final Settlement Day.
<b>Reporting Level</b>	1,000 futures contracts (standard and mini combined) on the S&P/TSX 60 Index gross long and short in all contract months combined.
<b>Daily Price Limits</b>	A trading halt in the index futures contract will be invoked in conjunction with the triggering of circuit breakers in the underlying stocks.
<b>Trading Hours (Montréal time)</b>	Early session: 6:00 a.m. to 9:15 a.m. Regular session: 9:30 a.m. to 4:15 p.m.

Position limits and minimum margin requirements can be obtained on the Montréal Exchange's website as they are subject to periodic changes. Consult circulars for more information.

## SXM - S&P/TSX 60 Index Mini Futures

<b>Underlying</b>	The S&P/TSX 60 Index is a capitalization-weighted index of the 60 largest and most liquid stocks listed on the Toronto Stock Exchange.
<b>Contract Size</b>	C\$50 times the level of the S&P/TSX 60 Index Mini Futures
<b>Contract Months</b>	March, June, September and December.
<b>Price Quotation</b>	The contract is quoted in index points, expressed to two decimals.
<b>Minimum Price Fluctuation</b>	<ul style="list-style-type: none"> <li>• 0.10 index point for outright positions</li> <li>• 0.01 index point for calendar spreads</li> </ul>
<b>Last Trading Day</b>	The trading day prior to the Final Settlement Day.
<b>Final Settlement Day</b>	The 3 <sup>rd</sup> Friday of the contract month, providing it be a business day; if not, the 1 <sup>st</sup> preceding business day.
<b>Contract Type</b>	Cash settlement. The final settlement price is the Official Opening Level of the underlying index to the Final Settlement Day.
<b>Reporting Level</b>	1,000 futures contracts (standard and mini combined) on the S&P/TSX 60 Index gross long and short in all contract months combined.
<b>Daily Price Limits</b>	A trading halt in the index futures contract will be invoked in conjunction with the triggering of circuit breakers in the underlying stocks.
<b>Trading Hours (Montréal time)</b>	Early session: 6:00 a.m. to 9:15 a.m. Regular session: 9:30 a.m. to 4:15 p.m.

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## SCF - S&P/TSX Composite Index Mini Futures

<b>Underlying</b>	The S&P/TSX Composite Index is a capitalization-weighted index designed to measure the market activity of stocks listed on the Toronto Stock Exchange.
<b>Contract Size</b>	C\$5 times the level of the S&P/TSX Composite Index Mini Futures
<b>Contract Months</b>	March, June, September and December.
<b>Price Quotation</b>	Quoted in index points
<b>Minimum Price Fluctuation</b>	<ul style="list-style-type: none"> <li>• 5 index points for outright positions</li> <li>• 1 index point for calendar spreads</li> </ul>
<b>Last Trading Day</b>	The trading day prior to the Final Settlement Day.
<b>Final Settlement Day</b>	The 3 <sup>rd</sup> Friday of the contract month, providing it be a business day; if not, the 1 <sup>st</sup> preceding business day.
<b>Contract Type</b>	Cash settlement. The final settlement price is the Official Opening Level of the underlying index to the Final Settlement Day.
<b>Reporting Level</b>	1,000 contracts gross long and short in all contract months combined.
<b>Daily Price Limits</b>	A trading halt in the index futures contract will be invoked in conjunction with the triggering of circuit breakers in the underlying stocks.
<b>Trading Hours (Montréal time)</b>	<p>Early session: 6:00 a.m. to 9:15 a.m.</p> <p>Regular session: 9:30 a.m. to 4:15 p.m.</p>

Position limits and minimum margin requirements can be obtained on the Montréal Exchange's website as they are subject to periodic changes. Consult circulars for more information.

## SXA, SXB, SXH, SXY – Sector Index Futures

<b>Underlying</b>	The designated S&P/TSX sector index: <ul style="list-style-type: none"> <li>• S&amp;P/TSX Global Gold Index</li> <li>• S&amp;P/TSX Capped Financials Index</li> <li>• S&amp;P/TSX Capped Information Technology Index</li> <li>• S&amp;P/TSX Capped Energy Index</li> </ul>
<b>Contract Size</b>	<ul style="list-style-type: none"> <li>• SXA (Gold) &gt; C\$200 times the level of the S&amp;P/TSX Global Gold Index futures</li> <li>• SXB (Financials) &gt; C\$200 times the level of the S&amp;P/TSX Capped Financials Index futures</li> <li>• SXH (Information technology) &gt; C\$500 times the level of the S&amp;P/TSX Capped Information Technology Index futures</li> <li>• SXY (Energy) &gt; C\$200 times the level of the S&amp;P/TSX Capped Energy Index futures</li> </ul>
<b>Contract Months</b>	March, June, September and December.
<b>Price Quotation</b>	Quoted in index points, expressed to two decimals.
<b>Minimum Price Fluctuation</b>	<ul style="list-style-type: none"> <li>• 0.10 index point for the S&amp;P/TSX Global Gold Index</li> <li>• 0.10 index point for the S&amp;P/TSX Capped Financials Index</li> <li>• 0.05 index point for the S&amp;P/TSX Capped Information Technology Index</li> <li>• 0.10 index point for the S&amp;P/TSX Capped Energy Index</li> </ul>
<b>Last Trading Day</b>	The trading day prior to the Final Settlement Day.
<b>Final Settlement Day</b>	The 3 <sup>rd</sup> Friday of the contract month, providing it be a business day; if not, the 1 <sup>st</sup> preceding business day.
<b>Contract Type</b>	Cash settlement. The final settlement price is the Official Opening Level of the underlying sector index on the Final Settlement Day.
<b>Reporting Level</b>	500 gross long and short in all contracts months combined.
<b>Daily Price Limit</b>	A trading halt in the index futures contract will be invoked in conjunction with the triggering of circuit breakers in the underlying stocks.
<b>Trading Hours (Montréal time)</b>	Early session: 6:00 a.m. to 9:15 a.m. Regular session: 9:30 a.m. to 4:15 p.m.

Position limits and minimum margin requirements can be obtained on the Montréal Exchange's website as they are subject to periodic changes. Consult circulars for more information.

## SXO - S&P/TSX 60 Index Options

<b>Underlying</b>	The S&P/TSX 60 index is a capitalization-weighted index of the 60 largest companies in Canada, which have the most liquid stocks.
<b>Multiplier</b>	C\$100 per S&P/TSX 60 Index point.
<b>Contract Months</b>	The nearest three months plus the next two months in the designated quarterly cycle March, June, September and December.  Annual expiry of December (long-term options)
<b>Minimum Price Fluctuation</b>	<ul style="list-style-type: none"> <li>• 0.01 index point equivalent to C\$1 per contract for premiums of less than 0.10 index points</li> <li>• 0.05 index point equivalent to C\$5 per contract for premiums of 0.10 index points and over.</li> </ul>
<b>Strike Prices</b>	Set at a minimum of 2.5 index points. Set at a minimum of 5 index points (long-term options)
<b>Contract Type</b>	European style.
<b>Last Trading Day</b>	The trading day prior to the Expiration Day.
<b>Expiration Day</b>	The 3 <sup>rd</sup> Friday of the contract month, providing it be a business day; if not, the 1 <sup>st</sup> preceding business day.
<b>Settlement upon Exercise</b>	Cash settlement. The final settlement price is the Official Opening Level of the underlying index on the Expiration Day.
<b>Reporting Limit</b>	1,500 contracts on the same side of the market in all options contract months combined.
<b>Daily Price Limits</b>	A trading halt in the index option contract will be invoked in conjunction with the triggering of circuit breakers in the underlying stocks.
<b>Trading Hours (Montréal time)</b>	9:31 a.m. to 4:15 p.m.

Position limits and minimum margin requirements can be obtained on the Montréal Exchange's website as they are subject to periodic changes. Consult circulars for more information.



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