

## **POLICY C-1**

### **REQUESTS FOR EXEMPTION TO POSITION LIMITS FOR BONA FIDE HEDGERS (08.09.89, 30.12.93)**

#### **INTRODUCTION**

The purpose of this policy is to explain the mechanism allowing a qualified client to obtain an exemption to the position limits on options and futures which are prescribed in the Regulations of The Montreal Exchange in order to better manage their business.

#### **1. REQUEST**

- 1.1 Any member on behalf of its client who is a bona fide hedger as defined in articles 11157, 14207 and 14208, or any client who is a bona fide hedger as defined in these same articles, can file with the Exchange an application for an exemption from the position limits prescribed by the Exchange for options and futures.
- 1.2 The application shall be filed no later than 9:30 A.M., (Montreal time) on the first business day following the day where the limit was exceeded.
- 1.3 The application shall include the following information:
  - 1.3.1 a description of the type of positions which will be taken and the limit requested;
  - 1.3.2 a statement that these positions are bona fide hedges or an explanation to justify that the positions comply with the definition of bona fide hedge;
  - 1.3.3 the client's financial statements at the most recent date.
  - 1.3.4 the client's inventory position in the underlying product for the period of six months preceding the date of the request;
  - 1.3.5 a recent summary of the client's activity in the market pertaining to which a request for a higher limit is made;
  - 1.3.6 if the member submitting the request is not a member of the clearing house which guarantees the contract, he shall submit with the request a letter from the clearing member in which the clearing member states that it does not object to this request;
  - 1.3.7 any other information the Exchange may request.

## **2. CRITERIA TAKEN INTO CONSIDERATION BY THE EXCHANGE IN REVIEWING AN APPLICATION FOR EXEMPTION FROM POSITION LIMITS**

Without in any way limiting the criteria which may be considered by the Exchange, the following will be taken into consideration by the Exchange in reviewing requests for exemptions from position limits.

- 2.1 The reputation and financial capacity of the client. The Exchange will ensure that a client will not expose himself beyond his capacity to manage the associated risks as evaluated by the Exchange.
- 2.2 The level of the client's inventory position in relation to the limit he is seeking.
- 2.3 The Exchange may decide to grant a fraction only of the limit which is requested, if the recent activity of the client does not seem to justify the limit he is seeking. The Exchange prefers to consider one or more subsequent applications as the client's activity increases in the product.
- 2.4 The Exchange takes into consideration the regular activity in the appropriate market: liquidity, open interest, etc. When the liquidity will increase, the client may submit an application for a higher limit.
- 2.5 The proposed strategy should be reasonable in the opinion of the Exchange.
- 2.6 Any other criteria the Exchange, in its discretion, considers appropriate.

## **3. COMMUNICATION OF THE DECISION**

- 3.1 If the Exchange approves the exemption, the member or the client will be informed as soon as possible.
- 3.2 If the Exchange refuses the exemption or approves a fraction only of the request which was made after the limit has been exceeded, the Exchange will inform the member or the client and will give to the member or the client a short period of time, according to the market conditions and the risk to the client, to reduce the client's position below the limit.

If, in the case where the request has been submitted by a client, the client fails to reduce the position within the time prescribed by the Exchange, the Exchange may instruct each clearing member with whom such client holds positions to reduce the client's position on a pro rata basis.

## **4. REVISION OF EXEMPTIONS**

- 4.1 Exemptions are granted for undefined periods but the Exchange has the right to modify any particular limit which has been granted.
- 4.2 The Exchange will review all the exemptions every 12 to 18 months.
- 4.3 However, in the case of a major change in the market or in the activity or the financial condition of a client whom has been granted special limit, the Exchange may review the exemption and ask for additional information on the particular situation of the client.