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<input checked="" type="checkbox"/>	Trading – Equity and Index Derivatives	<input checked="" type="checkbox"/>	Technology
<input checked="" type="checkbox"/>	Back-office – Futures	<input checked="" type="checkbox"/>	Regulation

CIRCULAR
February 5, 2007

REQUEST FOR COMMENTS

MODIFICATION OF THE MINIMUM QUOTATION SPREAD FOR EQUITY, INDEX PARTICIPATION UNIT AND INDEX OPTIONS CONTRACTS

AMENDMENTS TO ARTICLE 6624

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to article 6624 of Rule Six of the Bourse, which deal with the minimum quotation spread for equity, index participation unit and index options contracts. The objectives of these amendments are to harmonize trading rules vis-à-vis the introduction of "penny trading" for equity options at U.S. options exchanges and to make it more cost effective for participants to execute transactions in equity, index participation unit and index options contracts.

Process for Changes to the Rules

Bourse de Montréal Inc. is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

Circular no.: 020-2007

The Board of Directors of the Bourse has the power to approve the adoption or amendment of various Rules and Policies of the Bourse. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules and Policies. These changes are submitted to the Autorité for approval.

Comments on the proposed amendments to article 6624 of the Rules of the Bourse must be submitted within 30 days following the date of publication of the present notice in the bulletin of the Autorité. Please submit your comments to:

*Ms. Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary
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*

A copy of these comments shall also be forwarded to the Autorité to:

*Ms. Anne-Marie Beaudoin
Director – Secretariat of l'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca*

Appendices

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined, if applicable, with the other Canadian self-regulatory organizations following approval by the “Autorité des marchés financiers”.



MODIFICATION OF THE MINIMUM QUOTATION SPREAD FOR EQUITY, INDEX PARTICIPATION UNIT AND INDEX OPTIONS CONTRACTS

A -- Proposed Rule

Amendments to paragraphs a), b) and c) of Article 6624 of Rule Six of Bourse de Montréal Inc. (the Bourse) with respect to the minimum quotation spread (also referred to as the minimum price fluctuation or tick size) of equity, index participation unit and index options contracts are proposed.

As specified in paragraphs a), b) and c) of Article 6624, the minimum quotation spread for equity and index participation unit options contracts is \$0.05 for option premiums quoted at \$0.10 or higher, and for index options contracts it is 0.05 index point for option premiums quoted at 0.10 index point or higher.

The Bourse proposes to modify paragraphs a), b) and c) of Article 6624 so that the minimum quotation spread be set at \$0.01 for equity and index participation units and 0.01 index point for index options contracts listed on the Bourse, regardless of the option premium.

Once this proposed modification is approved by the Autorité des marchés financiers, the Bourse intends to phase in the change for the March 2007 option contract month and all subsequent expiry months.

B -- Rationale

The rationale to reduce the minimum quotation spread to \$0.01 and 0.01 index point is the following:

1. To harmonize trading rules vis-à-vis the upcoming introduction of “penny trading”

for equity options at U.S. options exchanges on January 26, 2007. U.S. options exchanges will thus offer finer pricing for options on Canadian stocks listed in the U.S., placing the Bourse and its participants at a competitive disadvantage.

2. To make it more cost effective for participants to execute transactions in equity, index participation unit and index options contracts. The effect of introducing finer option pricing may cause the bid / ask spread of the option premium quoted to narrow to less than \$0.05 and 0.05 index point.
3. To harmonize the practice with the currency options contracts currently listed at the Bourse (as per paragraph g) of Article 6624.

C -- Objective

The objectives of the proposed amendment are specified in section B above.

D -- Process

The Bourse asks the Autorité to approve the proposed amendments to paragraphs a), b) and c) of Article 6624 of the Rules of the Bourse.

E – Public Interest

The amendments proposed are in the public interest to promote the efficiency and competitiveness of the Bourse’s market.

F – Reference

- Paragraphs a), b) and c) of Article 6624 of the Rules of the Bourse.
- SEC- Notice of Filing of Proposed Rule Change To Create a Penny Pilot Program for Options Trading
<http://a257.g.akamaitech.net/7/257/2422/01jan20061800/edocket.access.gpo.gov/2006/pdf/E6-17317.pdf>

6624 Minimum Quotation ~~Spreads~~Fractions

(13.03.87, 19.05.87, 20.03.91, 10.11.92, 07.04.94, 15.04.96, 07.09.99, 11.02.00, 28.01.02, 26.09.05, ~~00.00.07~~)

The minimum quotation spread shall be:

a) Equity options \$0.01

~~under \$0.10~~ ~~\$0.01~~

~~\$0.10 or more~~ ~~\$0.05~~

b) Index participation unit options \$0.01

~~under \$0.10~~ ~~\$0.01~~

~~\$0.10 or more~~ ~~\$0.05~~

c) Index options 0.01 index point

~~under 0.10~~ ~~0.01 index points~~

~~index points~~

~~0.10 index points~~ ~~0.05 index points~~

~~or more~~

d) Bond options \$0.01

e) Futures options 0.01 point

f) Sponsored options \$0.001 or as otherwise determined in consultation with the Canadian Derivatives Clearing Corporation and with the sponsor.

g) Currency options CAN 0.01 cent per unit of foreign currency