CIRCULAR 046-23
March 29, 2023

SELF-CERTIFICATION

AMENDMENTS TO ARTICLE 9.4 OF THE RULES OF BOURSE DE MONTREAL INC. SPAN METHODOLOGY FOR CLIENT ACCOUNT

On May 11, 2021, the Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") and on April 20, 2021 the Special Committee of the Regulatory Division of the Bourse approved amendments to Article 9.4 of the Rules of the Bourse on span methodology for client accounts. These amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (CQLR, Chapter I-14.01).

These amendments attached herewith will become effective on March 31, 2023, after market close. Please note that the revised articles will also be available on the Bourse's website (www.m-x.ca).

The amendments described in the present circular were published for public comment by the Bourse on July 5, 2021 (see circular 124-21). Further to the publication of this circular, the Bourse received comments. A summary of the comments received as well as responses from the Bourse to these comments is attached hereto.

For additional information, please contact Sophie Brault, Legal Counsel, at 514-268-0591 or at sophie.brault@tmx.com.

Sophie Brault
Legal Counsel
Bourse de Montréal Inc.

ANNEX 1 - PROPOSED AMENDMENTS

AMENDED VERSION

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PART 9 - CLEARING AND FINANCIAL INTEGRITY

Article 9.4 Use of SPAN Risk Margining System

(a) Approved Participant Account. The Margin required for the account of an Approved Participant constituted exclusively of positions in Derivative Instruments listed on the Bourse may be calculated using the Standard Portfolio Analysis (SPAN) methodology and the Margin interval calculated by, and assumptions used by, the Canadian Derivatives Clearing Corporation. If the Approved Participant selects the SPAN methodology, the Margin requirements calculated under this methodology will supersede the provisions stipulated in the Rules.

(b) Client Account. An Approved Participant may~~The~~ use SPAN methodology to determine Margin requirements with respect to a Client Account ~~is prohibited~~if the Client Account at CDCC complies with the Gross Client Margin Regime as defined under CDCC Rules. If the Approved Participant selects the SPAN methodology, the Margin requirements calculated under this methodology will supersede the provisions stipulated in the Rules.

<u>CLEAN VERSION</u>

[…]

PART 9 - CLEARING AND FINANCIAL INTEGRITY

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(b) <u>Client Account</u>. An Approved Participant may use SPAN methodology to determine Margin requirements with respect to a Client Account if the Client Account at CDCC complies with the Gross Client Margin Regime as defined under CDCC Rules. If the Approved Participant selects the SPAN methodology, the Margin requirements calculated under this methodology will supersede the provisions stipulated in the Rules.

Circular 124-21 : AMENDMENTS TO ARTICLE 9.4 OF THE RULES OF BOURSE DE MONTRÉAL INC.
SPAN METHODOLOGY FOR CLIENT ACCOUNT
Summarized comments received from IIAC on August 24, 2021 and responses from the Bourse and CDCC

No.	Summary of comments	Summary of responses
1.	**Industry comments: We would request an expanded definition on "Hedge Open Positions" and "certain accounts".** Circular states: Complying with principle 14 of the PFMI on segregation and portability, CDCC is amending its rules and procedures. CDCC is proposing to i) introduce a GCM Regime applicable to all open positions on Futures and Options on Futures, excluding Hedge Open Positions, and ii) modify related margin requirements for certain accounts.	These comments are rather related to the CDCC proposed Rules and Operations Manuals amendments (CDCC Notice to Member no. 2021-102, the "**CDCC Notice**"). As per the CDCC proposed definition, Hedge Open Positions are those identified by Clearing Members as eligible to reduce market risk for a Client Account Individual or a Market Maker Non-Firm Account in specifically identified Hedge type accounts in the Clearing System (page 52 (of 70) of the CDCC Notice). This will allow CDCC and IIROC to more easily identify Hedge Open Positions and their eligibility for cross-product margin reliefs (e.g. between share futures and equity options). Please see page 9 and 10 (of 70) of the CDCC Notice.
2.	**Industry comments: Will MX, TMX or CDCC send a daily statement with the SPAN calculations (by account) for firms to reconcile? What would constitute a Non-GCM regime? Clarity is required on Hedge Open Positions and Short Positions in Futures or Options where the GCM regime uses SPAN methodology.** Circular states: Allowing the use of SPAN Methodology to calculate margin for Client Accounts within the new GCM Regime would align the margin calculation for clients at both the Canadian Approved Participant of the Bourse and Clearing Member of CDCC levels, if the Approved Participant selects the use of SPAN methodology to calculate margin for their Client Accounts.	**Reporting** Neither MX nor TMX will send a daily statement with the SPAN calculations (by account) for firms to reconcile. As for CDCC, it will continue to produce the same margin reports to Clearing Members. Additionally, CDCC is reviewing these margin reports to take into account the new GCM model structure and margin aggregation (i.e. where the margin is calculated at the new Risk Account level and aggregated in the new collateral polls: GCM, Non-GCM, Firm). Note that currently the margin is calculated at the sub-account level (physical accounts in the Clearing System) and aggregated at the Clearing Member level in a single pool.

		GCM Regime, Non-GCM Regime , Firm eligibility Under the GCM model, Clearing Members' positions are classified under 3 categories: 1) GCM (i.e. all client Futures and Options on Futures positions) (page 26 (of 70) of the CDCC Notice) 2) Non-GCM (i.e. all other client positions as well as hedge exempted futures positions) 3) Firm (proprietary positions of the Firm - not impacted by the current proposal). Non-GCM Regime refers to accounts that are not required to be compliant with the GCM Regime. Please see page 27 (of 70) of the CDCC Notice. **Hedge Accounts** As mentioned in question 1, hedge accounts are individual accounts specifically identified at CDCC allowing client positions (Hedge Open Positions) to obtain inter-market margin relief. The Futures positions (under the authorized exemption) in these accounts are considered to be in the Non-GCM Regime and are therefore not eligible for the same protection offered under the GCM Regime (enhanced portability mechanism). Note that these positions (for client accounts by Approved Participants) are deemed not eligible for the SPAN methodology since they are considered part of the Non-GCM Regime. In this case, the strategy-based rules will continue to apply for inter-market positions.
3.	**Industry comments: Do single stock futures fall into the category of "Hedge Open Positions"? Would clients who only hold share futures contracts be considered to be under a Non-GCM regime?** Circular states: For instance, for share futures contracts (under hedge accounts)	Share futures are included in the GCM Regime as are all other futures. However, exemptions are possible for all futures (including share futures) if held in a hedge account (referred to as Hedge Open Positions as per CDCC definition and considered to be under the Non-GCM Regime). More specifically, share futures contracts held in hedge accounts (meaning for

	and equity options with the same underlying, Approved Participants would continue to margin client portfolio exposures using the strategy-based method.	which there are deposited Securities held accordance with Sections A212 and A-706 of the CDCC Rules) and equity options with the same underlying, Approved Participants would continue to margin client portfolio exposures using the current methodology (published daily by the Division and referred to as a strategy-based methodology). Therefore, if clients only hold share futures contracts, and as such the accounts are not eligible to reduce market risk, these are covered by the GCM Regime. As a result, SPAN for clients could be used by Approved Participants to calculate their clients' margin. Margin relief between the GCM Regime and the Non-GCM Regime positions are not permitted by CDCC in its proposed amendments to the CDCC Rules.
4.	**Timing for implementation** Industry members believe that the timeline to implement the changes to the systems and related technology must be sufficient. CDCC Notice to Members No 2021-102 mentions a single implementation expected in the second quarter of 2022. This timeline is unrealistic for industry members.	This timeline is synchronized with the timeline of the CDCC GCM initiative. As indicated in the analysis from the MX, allowing the optional use of SPAN for Client Accounts would have the added benefits of increased transparency and alignment with global industry standards, thereby reducing uncertainty between different margin calculation methods. If the Approved Participant decides not to use the SPAN methodology to calculate client margin, the existing approach, currently published daily by the Division (a strategy-based methodology), will continue to apply. The Division publishes these margin requirements daily (CSV files), including specific margin requirements for futures contracts and for intra-commodity spreads. Clarity is required from IIAC on the following statement : *This timeline is unrealistic for industry members*. Kindly note that CDCC held multiple consultations with its Clearing Members on the GCM initiatives and IIAC's comment does not resonate with those of CDCC's Clearing Members.

5.	**Conclusion** As stated above, questions remain regarding the use of SPAN methodology and the move to a segregation and portability regime in Canada.	The move to segregation and portability in Canada is required to comply with principle 14 of the PFMI on segregation and portability. Allowing the use of SPAN for clients for margining purposes on targeted Futures and Options on Futures for Client Accounts within the new GCM Regime would align the margin calculation for clients at both the Canadian Approved Participant of the Bourse and Clearing Member of CDCC levels. Such an approach would achieve operational efficiencies by including any margin relief provided by CDCC which is not currently possible under the current dual SPAN and strategy-based regimes.