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**CIRCULAR**  
April 22, 2010

## OPEN POSITIONS REPORTING THRESHOLDS FOR DERIVATIVE INSTRUMENTS LISTED ON THE BOURSE

The purpose of this circular is to clarify the application of the Rules of Bourse de Montréal Inc. (the Bourse) for what regards positions in derivative instruments listed on the Bourse that must periodically be reported to the Bourse<sup>1</sup> when the prescribed reporting thresholds<sup>2</sup> are reached or exceeded.

To determine if an account holds a number of open positions in derivative instruments listed on the Bourse that is equal to or greater than the prescribed reporting threshold, approved participants must take in consideration the **gross** open positions held in each class of derivative instrument by this account, not the net positions. This means that if an account simultaneously holds long and short positions in a particular derivative instrument, these positions **must not** be netted together to determine if the reporting threshold has been reached or exceeded but must rather be added together. In addition, for the purpose of such determination, all the expiries of a given derivative instrument must be combined. For options on futures contracts as well as other options, all options having a different strike price must also be combined. It is also important to mention that if an account simultaneously holds positions in futures contracts and positions in options on such futures contracts, all open positions in both types of derivative instruments must be combined.

If it appears, following such a determination, that the reporting threshold has been reached or exceeded, approved participants must then transmit to the Bourse, in the manner prescribed by the Bourse, the detail of all **gross** open positions, i.e. the information provided must allow the Bourse to know about all long and short open positions for each expiry and, in the case of options on futures contracts and other options, for each strike price. **No netting of long (short) positions against short (long) positions must be made for the purposes of the report that must be transmitted to the Bourse.**

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<sup>1</sup> Position reports that must be filed when the prescribed reporting thresholds are reached or exceeded must be transmitted to the Bourse within 48 hours after the closing of trading on the second and fourth business days of each week for what regards futures contracts and options on futures contracts and within 48 hours after the closing of the last trading day of each week for other options listed on the Bourse.

<sup>2</sup> Reporting thresholds for derivative instrument listed on the Bourse are specified in the Rules of the Bourse, in the specifications of these instruments and in the position limits circulars that are periodically issued by the Bourse. All these sources of information can be consulted on the Bourse's Web site (<http://www.m-x.ca>).

The following is an example of combined gross open positions that should be declared to the Bourse:

**Account holder “A” positions**

<b>Instrument</b>	<b>Long</b>	<b>Short</b>
BAX Jun 10	50 ctr.	
BAX Sep 10	50 ctr.	100 ctr.
OBX Jun 95,50 Put	100 ctr.	
OBX Sep 95,25 Call		100 ctr.

**Total gross open positions for the BAX futures contract and the option on this future contract (OBX) for account holder “A”: 400 contracts**

Since the total gross open position exceeds the reporting level for these derivative instruments (300 contracts), all long and short positions held by this account in this category of derivative instruments must be reported to the Bourse.

**Multiple accounts**

If a client holds or controls more than one account as a beneficial owner, the determination of the reporting threshold must be made by taking in consideration all open positions held in all the accounts owned or controlled by this client as a beneficial owner. For example, if a client has a beneficial ownership interest not only in an account opened under his own name but also in other accounts opened in the name of other physical or moral persons, the determination of whether or not the reporting threshold has been reached or exceeded must be made by taking in consideration all gross open positions held by all these accounts as a whole.

If it appears that on a combined basis the total number of gross positions held by all these accounts equals or is greater than the reporting threshold, all positions held by each of these accounts must be reported and this regardless of the fact that one or many of them hold an open position that is lesser than the reporting threshold.

**Approved Participants Accounts (Firm Accounts)**

Approved participants holding open positions for their own account in any derivative instrument listed on the Bourse must report these positions to the Bourse by applying the same principles as those explained above.

**Who must file position reports to the Bourse**

According to the Rules of the Bourse, the obligation to report open positions rests upon each approved participant. However, for most approved participants that are not members of the Canadian Derivatives Clearing Corporation (CDCC), position reports are filed by their clearing broker.

Up until now, the Bourse has tolerated such a practice, but it intends, in reason of its numerous drawbacks, to eventually prohibit it and to formally require that all position reports be filed directly by each approved participant and not by its clearing broker. Positions held by clearing brokers on behalf on non-clearing approved participants are generally held in undisclosed omnibus accounts and the clearing broker therefore ignores who are the individual clients behind the positions held in such

accounts. Most of the time, the positions held in these accounts exceed the reporting thresholds thus obligating the clearing broker to report the account positions to the Bourse. But in reality, if all these positions could be broken down to their individual owners, a significant part would probably not need to be reported. As a result, some unnecessary position information is reported to the Bourse and this places a useless burden on clearing brokers. In addition to that, positions that are reported for omnibus accounts represent incomplete information for the Bourse since it is not possible for it to identify who are the ultimate position holders. When positions in undisclosed omnibus account that are reported reach a significant level, it then becomes necessary for the Bourse to contact the non-clearing approved participant to obtain the detail of these positions: This makes the whole reporting process inefficient since the required information could have been immediately available if the position reports had been filed directly by the non-clearing approved participant.

Finally, it has been noticed that in some instances double reporting was occurring in reason of a lack of communication and/or coordination between the non-clearing approved participant and its clearing broker, positions being reported by both of them. In those instances, there were also some cases where there were significant discrepancies between the information reported by both parties.

The requirements that the Bourse intends to put in place can be summarized as follows:

- 1o All approved participants (including foreign approved participants) that are using a clearing broker to clear their transactions will be required to report themselves positions held for their clients or for their own account;
- 2o Clearing brokers will no longer be required to report positions held in omnibus accounts that are maintained for approved participants (including foreign approved participants) for which they are clearing transactions. However, they will still be required to report positions held in omnibus accounts that are maintained for entities that are not approved participants of the Bourse.

It is the intent of the Bourse to implement these requirements at the same time that it will put in place a new tool that will automate position reporting (see circular no. 047-2010 published by the Bourse on April 22, 2010)

In the meantime, non-clearing approved participants should begin to consider solutions that would allow them to transmit themselves position reports to the Bourse rather than relying on their clearing broker.

For those who, until the implementation of the above-mentioned direct filing requirement, wish to continue having their position reports filed by their clearing broker, they should at a minimum ensure that:

- 1<sup>o</sup> The determination of which one of the non-clearing approved participant or its clearing broker ensures the reporting of open positions to the Bourse is clearly established. The non-clearing approved participant must not take for granted that this reporting will be done by its clearing broker and vice-versa. The two parties must also ensure that there is no duplicate reporting to the Bourse. Only one of them must file to the Bourse the report pertaining to positions.
- 2o If the parties have agreed that the non-clearing approved participant position reports will be prepared and filed with the Bourse by its clearing broker, the determination of whether or not the reporting thresholds have been reached or exceeded must be made from the omnibus accounts that the clearing broker holds on behalf of the non-clearing approved participant. The clearing broker not knowing the identity of clients of the non-clearing approved participant, and

registering the positions in a customer omnibus account opened in the name of the non-clearing approved participant, the positions reported to the Bourse will be those of such omnibus account.

If it happens that the Bourse wishes to know the identity of clients for whom positions are held in an omnibus account, non-clearing approved participants have an obligation to disclose to the Bourse the identity of clients for whom positions are held in such account if the Bourse requests them to do so.

For what regards clearing approved participants who report to the Bourse positions held in an omnibus account opened on behalf of a broker or another entity that is not an approved participant of the Bourse, they must ensure that the identity of the clients for whom positions are held in such omnibus account will be made available to the Bourse either by the clearing approved participant itself or by the broker or other entity on behalf of which the omnibus was opened, if the Bourse requests this information.

### Reporting thresholds

As a reminder, here are the reporting thresholds for the futures contracts and options on futures contracts that are currently listed for trading on the Bourse.

<b>FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS</b>	<b>REPORTING THRESHOLDS</b>
<b>BAX/OBX<sup>1</sup></b> - Three-month Canadian Bankers' Acceptance	<b>300 ctr.</b>
<b>LGB</b> - Thirty-year Government of Canada Bonds	<b>250 ctr.</b>
<b>CGB/OGB<sup>1</sup></b> - Ten-year Government of Canada Bonds	<b>250 ctr.</b>
<b>CGF</b> - Five-year Government of Canada Bonds	<b>250 ctr.</b>
<b>CGZ</b> - Two-year Government of Canada Bonds	<b>250 ctr.</b>
<b>SXF</b> - S&P/TSX 60 Index	<b>1,000 ctr.</b>
<b>SCF</b> - S&P/TSX Composite Index (mini contract)	<b>1,000 ctr.</b>
<b>ONX</b> - 30-Day Overnight Repo Rate	<b>300 ctr.</b>
<b>MCX</b> - Carbon Dioxide Equivalent Units (CO <sub>2</sub> e)	<b>250 ctr.</b>
<b>SXA-SXB-SXH-SXY</b> - S&P/TSX Capped Sectorial Indices	<b>500 ctr.</b>

1. To determine if the reporting limit has been reached, positions in options on futures contracts must be aggregated with the underlying futures contract positions. For aggregation purposes, one option contract is equivalent to one futures contract.

<b>EQUITY, INDEX, EXCHANGE TRADED FUNDS AND CURRENCY OPTIONS</b>	<b>REPORTING THRESHOLDS</b>
Equity Options	<b>250 ctr.</b>
Exchange Traded Funds Options	<b>500 ctr.</b>
Index Options	<b>1 500 ctr.</b>
Currency Options	<b>500 ctr.</b>

### Other Considerations

The Bourse wishes to remind approved participants that they do not have to submit positions reports, for options as well as for futures contracts and options on futures contracts, when positions held in all the accounts of a same owner are, for a specific derivative instrument, below the reporting thresholds set by the Bourse.

However, as set out in Circular No. 004-2010 issued by the Bourse on January 12, 2010, failure by an approved participant to file any position report for derivative instruments within the

prescribed delays, when such a report is required, will result in late filing penalty as per the following schedule:

**Options positions reports filed more than three (3) business days after the last trading day of each week (article 6654 of the Rules of the Bourse)**

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|--|--------|
| - First occurrence (per business day of late filing, for a maximum of \$ 1,000 per file)                                     | \$ 100 |
| - Second occurrence in a same calendar year (per business day of late filing, for a maximum of \$ 2,500 per file)            | \$ 250 |
| - For any following occurrence in a same calendar year (per business day of late filing, for a maximum of \$ 5,000 per file) | \$ 500 |

**Futures contracts and options on futures contracts positions reports filed more than two (2) business days following the second and the fourth business days of each week (article 14102 of the Rules of the Bourse)**

- |  |        |
|--|--------|
| - First occurrence (per business day of late filing, for a maximum of \$ 1,000 per file)                                     | \$ 100 |
| - Second occurrence in a same calendar year (per business day of late filing, for a maximum of \$ 2,500 per file)            | \$ 250 |
| - For any following occurrence in a same calendar year (per business day of late filing, for a maximum of \$ 5,000 per file) | \$ 500 |

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