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CIRCULAR 087-16

June 22, 2016

REQUEST FOR COMMENTS

TRADING PRACTICES AND OVERSIGHT

AMENDMENTS TO ARTICLES 4002, 4103, 6377, 6651 AND 14157 OF THE RULES OF BOURSE DE MONTRÉAL INC.

ABROGATION OF POLICY C-1- EXEMPTION REQUEST FROM A POSITION LIMIT

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) and the Special Committee of the Regulatory Division of the Bourse have approved amendments to articles 4002, 4103, 6377, 6651 and 14157 of the Rules of the Bourse and the abrogation of Policy C-1 in order to clarify recordkeeping requirements for approved participants, to simplify the Rules by incorporating now separate Policy C-1 into the Rules, to align the Rules with other exchanges’ practices as appropriate and to modernize the language of the Rules.

Comments on the proposed amendments must be submitted at the latest on **September 2, 2016**. Please submit your comments to:

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A copy of these comments shall also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^c Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file.

Appendices

For your information, you will find in the appendices, an analysis of the proposed amendments as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

Process for Changes to the Rules

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

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.

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



RULE MODERNIZATION- TRADE PRACTICES AND OVERSIGHT

AMENDMENTS TO ARTICLES 4002, 4103, 6377, 6651 AND 14157 OF THE RULE OF BOURSE DE MONTREAL INC.

ABROGATION OF POLICY C-1- EXEMPTION REQUEST FROM A POSITION LIMIT

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I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) has undertaken a project to update and modernize its Rules. This project seeks to review the structure of the Rules, unify procedures into the Rules, remove outdated articles, align the Rules with current practices, and recommend substantive amendments as appropriate to adapt the Rules to the evolution of the market. The Bourse has identified a number of amendments which are intended either to update the Rules, align the Rules with current practices or to implement best practices.

The proposed amendments are based on benchmarking with the rules and practices of other exchanges. In addition, the Bourse has made available a summary of the recommended changes to industry stakeholders providing them with the opportunity to offer informal comments.

II. ANALYSIS

a. Background

The initial step of this project was to create an internal Working Group to discuss and issue recommendations on the scope of the project and to identify particular articles that needed to be amended or modernized. The substantive amendments to be addressed were divided into two phases. The Phase 1 group of rules have already been published for public comments. The Bourse is currently addressing the Phase 2 group of rules which were grouped for consideration in two categories: Trade Practices and Oversight and General Updates. This document discusses amendments relating to Trade Practices and Oversight. Each of the proposed amendments is analyzed separately below, with additional detail included in the Appendixes.

b. Description and Analysis of Market Impacts

Article 4002 (Notice of Non-Compliance)

The Bourse proposes to amend article 4002 to provide guidance on when an Approved Participant is required to file a non-compliance report. The proposed amendments will make clear that an approved participant must file a non-compliance report when based upon its internal investigation or verification procedures, it concludes that it is “likely a violation of a rule listed in article 4002 occurred.”

The “likely” standard is being recommended in recognition of the fact that an Approved Participant may not be in a position to determine conclusively whether or not a violation was committed. First, the Bourse is likely to have a more complete record basis on which to make a conclusive determination. Moreover, concluding that a violation has occurred may involve interpreting a Bourse rule, which is not within the authority of an Approved Participant. Accordingly, the “likely” standard recognizes that an Approved Participant’s role is not the same as that of the Bourse. This standard is more appropriately applied by the Approved Participant and does not require that the Approved Participant have absolute certainty of a violation.

The Bourse has also removed from the list of articles whose likely violation must be reported, violations of just and equitable principles of trade and any other obligation that may be established by the Bourse from time to time. The Bourse believes that these requirements are solely within the discretion of the Bourse to define and therefore are not appropriately included in this reporting requirement.

The Bourse also proposes to add article 6366 to the list of articles whose likely violation must be reported using the non-compliance report form.

Article 4103 (List of designated persons)

Article 4103 addresses the eligibility of certain individuals to sit on the disciplinary committee. The list of individuals eligible to sit on the disciplinary committee must contain at least two individuals who are related neither to an approved participant nor to the Bourse. In order to provide clarity with regard to who should be considered unrelated to an approved participant and to the Bourse, the Bourse proposes to introduce the concepts of independence as provided in Regulation 52-110.

The amended rule borrows the concepts of independence from Regulation 52-110 because these concepts have been widely accepted, and are already familiar to many directors, officers and other senior managers.

Article 6377 (Keeping Records of Orders)

The proposed amendments to article 6377 seek to clarify recordkeeping requirements for market participants and expand the means of communication whose recording is mandatory. Current article 6377 provides for the recording of phone conversations regarding trading in products listed on the Bourse. There currently is no requirement to record other forms of communications, such as emails, regular mail, fax or instant messaging. The proposed amendments will update this article to reflect the evolution of communication means.

Furthermore, the proposed amendments will clarify the information that must be recorded at the order receipt, order entry, order modification and at the execution of the order. These amendments are intended to provide greater clarity and understanding to market participants regarding their record-keeping obligations. Records mandated under this article will also have to be made available to the Bourse no later than 10 business days following such request by the Bourse.

The proposed amendments likely will assist the work of the Regulatory Division by making clear that all communications, regardless of their format, will be subject to the recordkeeping requirement and made available to the Bourse upon request.

Article 6651 (Position Limits for Options)

Article 14157 (Position Limits for Derivatives Instruments)

Policy C-1 (Exemption Request from a Position Limit)

The proposed amendments will update position limits for options by introducing additional hedging exceptions for market participants. The effect of these changes is to more closely align

the available hedging exemptions with those available on other exchanges. The Bourse believes that these proposed amendments will enable traders potentially to hold larger positions, particularly hedge positions, but still at levels which are unlikely to have adverse market effects. Among the hedge exceptions added in article 6651 is the bona fide hedge and risk management exemption provided for in Policy C-1. Since this exception is added in article 6651, the Bourse proposes to abrogate Policy C-1.

However, since article 6651 only applies to options, the content of Policy C-1 will also be incorporated in article 14157 which deals with position limits for all derivatives instruments, to make clear that such exception is also available for futures.

The form used to apply for an exemption under Policy C-1 will be available on the Bourse website.

c. Comparative Analysis

Please see Appendix 1 which provides further details on other exchange's practices and the benchmarking made by the Bourse.

d. Proposed Amendments

Please see Appendix 2 for the proposed amendments to the aforementioned articles.

III. AMENDMENT PROCESS

The Bourse undertook this project to align its Rules with international best practices and provide its clients with more certainty with regard to its regulations. Prior to undertaking these amendments, the Bourse made available the recommendations to market participants' associations in order to receive their preliminary comments on the proposed amendments.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

None of the proposed amendments has an impact on the technological systems of the Bourse or those of its approved participants.

V. OBJECTIVES OF THE PROPOSED ADMMENDMENTS

The proposed amendments seek to:

- Provide greater clarity for market participants;
- Provide greater legal certainty to market participants as to various permitted and prohibited practices;
- Simplify the Rules by incorporating now separate Policy C-1 into the Rules;

- Align the Rules with other exchanges' practices as appropriate;
- Clarify recordkeeping requirements for approved participants; and
- Modernize the language of the Rules.

In striving to achieve these goals, the work of the Regulatory Division in enforcing current exchange rules and monitoring position limits hedge exemptions was considered. Providing greater clarity as to acceptable trading practices and ensuring that the Rules are in alignment with market practice also assists the Regulatory Division in its mission. Moreover, the amendments to the "gatekeeper" reporting requirement should enhance the work of the Regulatory Division by providing greater clarity to Approved Participants relating to their obligations under rule 4002.

VI. PUBLIC INTEREST

It is in the public interest that the Rules of the Bourse be clear and provide certainty to market participants regarding its application. The proposed amendments aim at making the Rules more transparent and ensuring there is no ambiguity in the application thereof. They're also intended to bring market practice in alignment with international best practices. This should create greater uniformity of practice for market participants and assist in their compliance efforts.

VII. EFFICIENCY

The proposed amendments will enhance market efficiency by clarifying the Rules, providing details on the acceptable position limits hedge exceptions and removing uncertainty as to the acceptability of various practices.

VIII. PROCESS

The proposed amendments must be approved by the Bourse's Rules and Policies Committee and submitted to the Autorité des marchés financiers, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

- Appendix 1: Recommendations and benchmarking;
- Appendix 2: Proposed amendments.

MX RULE ANALYSIS, BENCHMARK REVIEW AND RECOMMENDATION

Category 1 – Trade Practices and oversight

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
4002- Notice of Non-Compliance	MX should clarify and review the conditions that trigger the obligation to file, and the time period for filing, a gatekeeper report.	See below.	<p>We recommend amending paragraph 3 in order to:</p> <p>a) Add the article references to the general description of violations;</p> <p>b) Add article 6366 to the list—it has substantive requirements that are subject to enforcement;</p> <p>c) Do not add 14102(7) to the list, it is part of a separate set of requirements and has its own timing;</p> <p>d) Delete due to vagueness sub-paragraph a) “just and equitable principles of trade” and h) “any other obligation, prohibition or requirement that may be established by the Bourse from time to time.”</p> <p>We also recommend to make clear that a gatekeeper report is due within 10 days of an approved participant determining that “it is likely that” a violation of Bourse rules occurred.</p> <p>The recommended standard is a lower standard than requiring the “finding” of a violation. This is because “finding a violation” may require interpretation of the Bourse’s rules and policies and require more process and procedure than an approved participant has. This standard is in lieu of IIROC’s voluntary procedure to forward inquiries in which the member does not find a violation, but thinks a report should be forwarded.</p>	<p>MX:</p> <ul style="list-style-type: none"> - Circular 004-12 <p>IIROC:</p> <ul style="list-style-type: none"> - Market Integrity Notice 2006-007 - Market Integrity Notice 2008-011 - UMIR 10.16

¹ If not included in the table, the full text of each relevant current rule is set forth at the bottom of the respective table.

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
			<p>The standard “likely to have violated” serves a similar purpose—the approved participant does not need absolute certainty of a violation to trigger the report. However, it is a not a voluntary report.</p> <p>All records of verifications or investigations must be retained for a seven (7) year period and made available upon request of MX. The requirement to retain records enables MX to spot check if inquiries are being closed out with no finding and that the conclusion is unwarranted.</p>	
<p>4103- List of designated Persons (eligible persons to sit on the disciplinary committee)</p>	<p>Define what it means not to be related to an approved participant or to the Bourse</p>	<p>4103 List of Designated Persons (22.03.88, 11.03.92, 15.03.05)</p> <p>The Bourse maintains a list of persons eligible to sit on a Disciplinary Committee. This list and any change thereto must be approved by the Special Committee.</p> <p>The list shall consist of:</p> <p>a) Individuals:</p> <p>i) who are directors, officers or partners of approved participants; or</p> <p>ii) who are retired from the securities industry and who were previously directors, officers or partners of an approved participant.</p>	<p>We recommend incorporating in the rule the independence criteria mentioned in Regulation 52-110. Such criteria should be used to determine whether a person is related to an approved participant or to the Bourse.</p>	<p>CBOE-CFE:</p> <ul style="list-style-type: none"> - Rule 201, 209 <p>CME:</p> <ul style="list-style-type: none"> - Rule 402A <p>ICE Futures US:</p> <ul style="list-style-type: none"> - Rule 21.03 - Rule 21.00 (e) <p>CFTC:</p> <ul style="list-style-type: none"> - Rule 38.702 - Appendix B to part 38 <p>Canadian regulations:</p> <ul style="list-style-type: none"> - Regulation 52-110 section 1.4

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
		b) at least two (2) individuals who are related neither to an approved participant, nor to the Bourse.		<ul style="list-style-type: none"> - Policy Statement to Regulation 52-110, part 3
<p>6377- Keeping records of Orders</p>	<p>MX should make clear that records of orders must be kept in a format that cannot be modified and for a period of seven years.</p> <p>MX should also clarify that these requirements also apply to all communications regarding clients' orders on listed products, notwithstanding the method of communication.</p>	See below.	<p>We recommend expanding the scope of article 6377 by mentioning that a record of all communications regarding a client's order must be retained, notwithstanding the method of communication.</p> <p>Such records must be kept for a period of seven (7) years.</p>	<p>Canadian Regulations:</p> <ul style="list-style-type: none"> - Regulation 31-103, article 11.5 - Policy Statement to Regulation 31-103, article 11.5 - Regulation 23-101, article 11.2 <p>FCA:</p> <ul style="list-style-type: none"> - Conduct of Business Sourcebook, article 11.8 <p>ICE Futures Canada:</p> <p>Rule 8B.14</p>
<p>6651 Article 6651 Position Limits – sub-article D, section 2.</p>	<p>1. Should the rule be clarified to reflect the options quarterly circular?</p> <p>2. Should any of the limit levels be revised?</p>	See below.	<p>Issue 1: The circular clarifies that each account may hold up to double the rule limit for each class of options when such account uses any of the approved hedges for that class of options. The rule may be ambiguous. We recommend that the rule</p>	<p>CBOE:</p> <ul style="list-style-type: none"> - Rule 4.11, 4.13, 5.3, 6.53(y), 6.74, 8.9(b), 15.3,

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
	<p>3. The current rule does not distinguish with respect to the limits between different types of options. Should there be a distinction between different types of options?</p> <p>4. Is greater clarity needed to explain what is meant by “hedges.”</p> <p>5. Should MX require Approved Participants to report “underlying positions associated to the options classes” held by their clients that meet MX’s reporting threshold or some alternative threshold.</p>		<p>be amended to make the permitted doubling explicit.</p> <p>Issue 2: Review of limit levels</p> <p>This is subject to separate review by MX and is outside the scope of this review.</p> <p>Issue 3: See Issue 2</p> <p>Issue 4: Hedging: We recommend that in order to be better aligned with the rules of other markets, MX clarify the meaning of “hedge” in relation to <i>equity options</i> to include (a) automatic exemption for certain hedges and (b) 5x exemption for additional hedges.</p> <p>Issue 5: The reason for considering adopting this reporting regime is to make surveillance for inter-market manipulation more effective. We note that the Regulatory Division can request this information under its general surveillance authority. The U.S. exchanges generally do not require market participants to report on their underlying cash positions associated with their derivatives transactions. We thus do not recommend to require such reporting on a routine basis at the current time.</p> <p>a) We note that CBOE has rules requiring reporting of market maker transactions in underlying securities and “tied to stock” transactions. These requirements are designed to obtain data relating to cross-</p>	<p>24.4, 24.4A, 24.4B, 24.4C, 28.2</p> <p>- Regulatory Circular RG14-171</p> <p>CME:</p> <p>- Rule 559 B</p> <p>CBOE CFE:</p> <p>- Rule 412, 412A</p> <p>PHLX:</p> <p>- Rule 1001 - Rule 1003</p> <p>FINRA:</p> <p>- Rule 2360(b)(5)</p> <p>EUREX:</p> <p>- Rule 14</p>

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
			<p>market trading activity and to surveil for prohibited joint account transactions. MX could consider similar requirements. (See CBOE Rule 8.9(b) (requiring reporting of market maker transactions in underlying securities) and new Rule 15.2A (reporting of tied to stock transactions)). Rule 15.2A was adopted in 2014, but implementation has been delayed. We recommend to reassess this issue in light of developments under the CBOE rule after it is in effect and there is an opportunity to assess its impact.</p> <p><u>Additional recommendations:</u></p> <p>a) <u>Establish a “risk-management” exemption in the rule.</u> Although Rule 6651E) and the circular only reference bona fide hedging as a basis for seeking an additional exemption, Policy C-1 also includes an exemption for a “risk management purpose.” We recommend that the standards in Policy C-1 be incorporated into Rule 6651 (i.e., make explicit in the rule that an exemption for risk mitigation may be requested) (Note CFTC guidance on risk management positions). We also recommend that the circulars be replaced by a document publicly available which will be keep up-to-date and reflect current limits. The circulars will only be published to notify the public of a change to the current limits.</p>	

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
<p>14157 – Position Limits for Derivatives Instruments</p>	<p>Policy C-1 is abrogated and its content need to be integrated in article 14157 to make clear that the Policy C-1 position limit exemption applies to futures.</p>	<p>14157 Position Limits for Derivative Instruments (24.04.84, 30.12.93, 13.09.05, 04.03.08)</p> <p>No approved participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a specific derivative instrument listed on the Bourse if the approved participant has reason to believe that as a result of such transaction the approved participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limit established by the Bourse.</p> <p>For the purposes of position limit regulations, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, must be aggregated.</p> <p>A person with authority over one or more managed accounts must not execute or order the execution of</p>	<p>We recommend incorporating the content of Policy C-1 in article 14157.</p>	<p>N/A</p>

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
		<p>transactions for such account or accounts where such transactions, by themselves or in addition to his personal transactions, exceed the limits prescribed under the Rules of the Bourse regarding total positions in any derivative instrument.</p> <p>Exemptions</p> <p>In accordance with the provisions of Policy C-1, an approved participant may file, in the form prescribed, an application to the Bourse, to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed by the Bourse.</p> <p>A bona fide hedger may also under certain circumstances file directly with the Bourse, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Bourse.</p>		

4002 Notice of Non-Compliance

(11.03.85, 11.03.92, 15.03.05, 02.09.11; 16.07.12)

1. Immediate notice must be given in writing to the Regulatory Division by an approved participant, approved person or restricted trading permit holder in the event that such person, or any other approved participant, employee, restricted trading permit holder or approved person fails to be able to continue to meet its obligations or becomes insolvent or commits an act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act.
2. Notice must be given to the Regulatory Division by an approved participant, approved person or restricted trading permit holder, using the prescribed form, within ten (10) business days of a finding, in the event that such person, or any other approved participant, employee, restricted trading permit holder, client authorized to use the order routing system of an approved participant pursuant to article 6366 B) or approved person fails to comply with the regulations of the Bourse.
3. Without limiting the above, approved participants must diligently conduct and complete all necessary audits and requirements of Section 11.2 of National Instrument 23-101 regarding Trading Rules.

investigations, in compliance with their internal supervision policies and procedures, when they suspect an employee, an approved person, a restricted trading permit holder or a client of having contravened the Rules of the Bourse pertaining to, notably:

- a) the obligation to trade in compliance with equitable principles;
- b) the prohibition to use any manipulative or deceptive methods of trading;
- c) the prohibition to enter orders or to execute trades in an irregular manner;
- d) the prohibition of front running;
- e) the obligation to execute clients' orders at the best possible price;
- f) the obligation to ensure the priority of client's orders;
- g) the obligation to execute on the Bourse's market all transactions on derivative instruments listed on the Bourse, subject to specific exceptions provided for in the Rules of the Bourse; and
- h) any other obligation, prohibition or requirement that may be established by the Bourse from time to time.

- 7) Exceptionally, the Bourse may grant exemptions from all or any part of the requirements set in paragraphs 1) to 5) above.

4. Any verification or investigation made in accordance with this article, regardless of the conclusion, must be recorded in writing and adequately documented. Records so created must be kept for a period of at least seven (7) years as of their date of creation and must be made available to the Regulatory Division upon request.
5. If upon completion of the verifications and investigations provided for in paragraph 3, an approved participant concludes to a possible violation of any of the obligations, prohibitions or requirements mentioned in said paragraph, it must forward the required information to the Regulatory Division of the Bourse, using the prescribed form no later than the tenth (10th) business day following the date on which it reached such conclusion.
6. The obligations of an approved participant provided for in this article are in addition to the other obligations stipulated in the Rules, Policies and trading Procedures of the Bourse, notably with regards to supervision and, in any case, shall not prevent the Bourse from undertaking disciplinary measures against an approved participant, an approved person or a restricted trading permit holder.

6377 Keeping Records of Orders

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 31.01.05)

- 1) With the exception of orders entered by a market maker to comply with obligations required by his role and responsibilities, a record must be kept by each approved participant of each order received for the purchase or sale of securities or derivative instruments traded on the Bourse.
- 2) The record of each order executed must indicate the person who received the order, the time the order was received, the time it was entered into the electronic trading system of the Bourse, the price at which it was executed, its time of execution, its classification pursuant to the provisions of article 6376, the approved participant from or to or through whom the security or derivative instrument traded on the Bourse was purchased or sold and, as the case may be, if the order was executed as a cross transaction, a prearranged transaction or a block trade pursuant to the provisions of article 6380. Such record must be retained for seven years.
- 3) No order can be executed on the electronic trading system of the Bourse until it has been identified as above by the approved participant who received the order.

All orders for securities or derivative instruments traded on the Bourse must be time-stamped and, if applicable, indicate any special instructions including the consent of the client to prenegotiation discussions.

- 4) The record of each order which remains unfilled must indicate the person who received the order, its time of receipt and its classification pursuant to the provisions of article 6376 and such record must be retained for seven years.
- 5) All telephone conversations related to trading in securities or derivative instruments listed on the Bourse must be recorded. The following conditions apply:
 - i) Recordings must be kept by approved participants for a period of one year.
 - ii) Authorization to consult the recordings of telephone conversations shall be granted in the case of an investigation by the Bourse, the Autorité des marchés financiers or by any other regulatory body with which the Bourse has concluded an information sharing agreement;

- iii) In the case of litigation or in disciplinary matters, the recording may be filed as evidence.
- iv) Approved participants must advise their clients of the recording of telephone conversations and comply with the provisions of article 7452 of Rule 7.

6) Where an order ticket is completed, it must comply, for what concerns the information that must be entered on it, with the

6651 Position Limits for options

(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91, 10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 20.05.10, 25.06.12, 12.04.13, 04.06.15)

A) Except as provided in paragraph D) of this article, no approved participant or restricted trading permit holder shall make for any account in which it has an interest, or for the account of any client, an options transaction if the approved participant or the restricted trading permit holder has reason to believe that as a result of such transaction the approved participant or its client, or the restricted trading permit holder would, acting alone or in concert with others, directly or indirectly, hold, control or be obligated with respect to an options position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the options position limits established by the Bourse.

B) Except otherwise indicated, the applicable position limits for options are as follows:

1. Options on stocks, exchange-traded funds or income trust units
 - a) 25,000 contracts where the underlying security does not meet the requirements set out in subparagraphs B) 1. b) and B) 1. c) of the present article;
 - b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;
 - c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-

traded fund or income trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding;

- d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding;
- e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 100 million shares or units of the underlying interest or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares or units of the underlying interest and at least 300 million shares or units of this underlying interest are currently outstanding;
- f) 300,000 contracts for options on the following exchange-traded funds:
 - units of the iShares S&P/TSX 60 Index Fund (XIU).

2. Debt options

8,000 contracts.

3. Index options
500,000 contracts.
4. Sector index options
40,000 contracts.
5. Options on futures

The number of contracts established as the position limits for the underlying futures contract.

For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.

6. Sponsored options

The position limits described above apply to sponsored options. However, these position limits must be adjusted by using an equivalent unit of trading.

When the underlying interest is traded on a market other than the Bourse, the position limits of this market apply to sponsored options by using an equivalent unit of trading.

7. Currency options

40,000 contracts when the trading unit is 10,000 units of foreign currency. The limit will be adjusted to obtain the

same notional amount if the trading unit is amended or if the Bourse introduces new trading units.

C) For the purpose of this article:

1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;
2. the account of a restricted trading permit holder will not be counted with that of his clearing broker unless the clearing broker has an interest in the account;
3. the Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit.

D) Conversions, reverse conversions, long and short hedges

1. For the purposes of this article the following defined hedges are approved by the Exchange:
 - a) conversion: where an opening long put transaction in any option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest of the option;
 - b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest of the option;

c) short hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;

d) long hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option.

2. In addition to the options position limits set out in paragraph B), any one account may hold an amount not exceeding the applicable paragraph B) limit of any combination of the approved hedge positions defined in sub-paragraphs D) 1. a) to D) 1. d), inclusive.
3. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

E) Exemption

As described in Policy C-1, a member may file with the Exchange an application to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed in this article. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted. A bona fide hedger may also under certain circumstances file directly with the Exchange, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Exchange.

4002 Notice of Non-Compliance

(11.03.85, 11.03.92, 15.03.05, 02.09.11; 16.07.12, 00.00.00)

1. ~~Immediate notice~~An Approved Participant must be given in writing to immediately notify the Regulatory Division ~~by an approved participant, approved person or restricted trading permit holder~~ in the event that ~~such person, this Approved Participant or any other approved participant, employee, restricted trading permit holder or approved person of its Approved Person:~~
 - ~~a) fails to be able to continue to meet its obligations or;~~
 - ~~b) becomes insolvent or;~~
 - ~~c) commits an act of bankruptcy within the meaning of the *Bankruptcy and Insolvency Act*; or~~
 - ~~d) becomes a debtor company within the meaning of the *Companies' Creditor Arrangement Act*.~~

2. ~~Notice~~An Approved Participant must be given to notify the Regulatory Division ~~by an approved participant, approved person or restricted trading permit holder, using the in the prescribed form~~manner, within ten (10) business days ~~of a finding, in the event~~upon becoming aware that ~~such person it is likely that such Approved Participant, or any other approved participant, employee, restricted trading permit holder, client of its Approved Persons or employees, or clients authorized to use the order routing system of an approved participant pursuant to article 6366 B) or approved person fails to use its order routing system has failed to comply with any of the regulations~~Regulations of the Bourse.

3. Without limiting ~~the above, approved participants must diligently conduct and complete all necessary audits and investigations, in compliance~~paragraph 2 of this article, an Approved Participant in accordance with their internal supervision policies and procedures, ~~when they suspect an employee, an approved person, a restricted trading permit holder must diligently and thoroughly investigate every instance in which it suspects that its conduct, or the conduct of an employee, an Approved Person or a client of having contravened the Rules of the Bourse pertaining to, notably~~may constitute a violation of:
 - ~~a) the obligation to trade in compliance with equitable principles;~~
 - ~~b) the prohibition to use any~~a) article 6306 respecting manipulative or deceptive methods of trading;
 - ~~c) the prohibition to enter orders or to execute trades in an irregular manner;~~
 - ~~d) the prohibition of~~b) article 6366 respecting authorized access to the electronic trading system;
 - ~~e) the obligation to execute clients' orders at~~d) article 6310 respecting the best possible price execution of client orders;
 - ~~f) the obligation to ensure the~~e) articles 6374 and 6379 respecting the chronological priority of client's orders;
 - ~~g) article 6380 and 6816 respecting~~the obligation to execute all transactions in Listed Products on the Bourse's market all transactions on derivative instruments listed on the Bourse, subject to specific exceptions, or
 - ~~h) a material provision of any standard or of any written agreement applicable to a client pursuant to article 6366 B) (2).~~

4. An Approved Participant must notify the Regulatory Division in the prescribed manner within ten (10) business days of completing an investigation in which it concludes that it is likely that any of the articles enumerated in paragraph 3 has been violated; provided for in the Rules of the Bourse; and however, it must notify the Regulatory Division immediately if the likely violation is by a client of any material provision of a standard established by the Approved Participant, or of the written agreement applicable to a client, pursuant to article 6366 (B)(2).

~~h) any other obligation, prohibition or requirement that may be established by the Bourse from time to time.~~

4. _____

5. Any ~~verification~~assessment, review or investigation made in accordance with this article, regardless of the conclusion, must be recorded in writing and adequately documented. Records so created must be kept for a period of at least seven (7) years as of their date of creation and must be made available to the Regulatory Division upon request.

~~5. If upon completion of the verifications and investigations provided for in paragraph 3, an approved participant concludes to a possible violation of any of the obligations, prohibitions or requirements mentioned in said paragraph, it must forward the required information to the Regulatory Division of the Bourse, using the prescribed form no later than the tenth (10th) business day following the date on which it reached such conclusion.~~

6. The obligations of an ~~approved participant~~Approved Participant provided for in this article are in addition to the other obligations stipulated in the Rules, Policies and trading Procedures of the Bourse, notably with regards to supervision and, in any case, shall not prevent the Bourse from undertaking disciplinary measures against an ~~approved participant, an approved person or a restricted trading permit holder.~~Approved Participant or an Approved Person.

~~b) such person, or any other approved participant, employee, restricted trading permit holder or approved person fails to be able to continue to meet its obligations or becomes insolvent or commits an act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act.~~

4002 Notice of Non-Compliance

(11.03.85, 11.03.92, 15.03.05, 02.09.11; 16.07.12, 00.00.00)

1. An Approved Participant must immediately notify the Regulatory Division in the event that this Approved Participant or any of its Approved Person:
 - a) fails to be able to continue to meet its obligations;
 - b) becomes insolvent;
 - c) commits an act of bankruptcy within the meaning of the *Bankruptcy and Insolvency Act*; or
 - d) becomes a debtor company within the meaning of the *Companies' Creditor Arrangement Act*.
2. An Approved Participant must notify the Regulatory Division in the prescribed manner, within ten (10) business days upon becoming aware that it is likely that such Approved Participant, or any of its Approved Persons or employees, or clients authorized pursuant to article 6366 B) to use its order routing system has failed to comply with any of the Regulations of the Bourse.
3. Without limiting paragraph 2 of this article, an Approved Participant in accordance with its internal supervision policies and procedures, must diligently and thoroughly investigate every instance in which it suspects that its conduct, or the conduct of an employee, an Approved Person or a client may constitute a violation of:
 - a) article 6306 respecting manipulative or deceptive methods of trading;
 - b) article 6366 respecting authorized access to the electronic trading system;
 - c) article 6305 respecting front running;
 - d) article 6310 respecting the best execution of client orders;
 - e) articles 6374 and 6379 respecting the chronological priority of orders;
 - f) article 6380 and 6816 respecting the obligation to execute all transactions in Listed Products on the Bourse's market, or
 - g) a material provision of any standard or of any written agreement applicable to a client pursuant to article 6366 B) (2).
4. An Approved Participant must notify the Regulatory Division in the prescribed manner within ten (10) business days of completing an investigation in which it concludes that it is likely that any of the articles enumerated in paragraph 3 has been violated; *provided however*, it must notify the Regulatory Division immediately if the likely violation is by a client of any material provision of a standard established by the Approved Participant, or of the written agreement applicable to a client, pursuant to article 6366 (B)(2).
5. Any assessment, review or investigation made in accordance with this article, regardless of the conclusion, must be recorded in writing and adequately documented. Records so created must be kept for a period of at least seven (7) years as of their date of creation and must be made available to the Regulatory Division upon request.
6. The obligations of an Approved Participant provided for in this article are in addition to the other obligations stipulated in the Rules, Policies and trading Procedures of the Bourse, notably with regards to supervision and, in any case, shall not prevent the Bourse from undertaking disciplinary measures against an Approved Participant or an Approved Person.

4103 List of Designated Persons
(22.03.88, 11.03.92, 15.03.05, 00.00.00)

1) For the purpose of this article, the term "immediate family member" means an individual's spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of either the individual or the individual's immediate family member) who shares the individual's home.

2) The Bourse ~~maintains~~ shall maintain a list of persons eligible to sit on a Disciplinary Committee. This list and any change thereto must be approved by the Special Committee. The list shall consist of individuals who are:

~~The list shall consist of:~~

a) ~~Individuals:~~

~~i) who are~~ directors, officers or partners of ~~approved participants;~~ Approved Participants or

~~ii) who are retired from the securities industry and~~ who were previously ~~_~~ directors, officers or partners of an ~~approved participant.~~ Approved Participant and are now retired from the securities industry; and

~~bb) at least two (2) individuals who are related neither to an approved participant, nor each of whom has no direct or indirect material relationship _ to the Bourse- and to an Approved Participant.~~

3) For the purpose of this article, a material relationship is a relationship which could, in the view of the Special Committee, be reasonably expected to interfere with the exercise of the independent judgment of a Disciplinary Committee member. The following individuals shall be considered to have a material relationship with the Bourse or an Approved Participant:

a) an individual who is or has been an employee, director or officer within the past three (3) years of the Bourse or an Approved Participant;

b) an individual whose Immediate Family Member is, or has been within the last three (3) years an executive officer of the Bourse or of an Approved Participant;

c) an individual who, or whose immediate family member, is, or has been within the last three (3) years, an officer of an entity on whose compensation committee an officer of the Bourse or an Approved Participant serves;

d) an individual who:

i) directly accepts any consulting, advisory or other compensatory fee from the Bourse or an Approved Participant other than as remuneration as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee, or the receipt of fixed amounts of deferred compensation for

prior service with the Bourse or an Approved Participant that is not contingent on continued service, or

ii) indirectly accepts any such consulting, advisory or other compensatory fee, including acceptance of such a fee by an individual's immediate family member; and

a) an individual who has a relationship enumerated in subsections a) through d) of this article with an entity affiliated with the Bourse or an Approved Participant.

4103 List of Designated Persons
(22.03.88, 11.03.92, 15.03.05, 00.00.00)

- 1) For the purpose of this article, the term "immediate family member" means an individual's spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of either the individual or the individual's immediate family member) who shares the individual's home.
- 2) The Bourse shall maintain a list of persons eligible to sit on a Disciplinary Committee. This list and any change thereto must be approved by the Special Committee. The list shall consist of individuals who are:
 - a) directors, officers or partners of Approved Participants or who were previously directors, officers or partners of an Approved Participant and are now retired from the securities industry; and
 - b) at least two (2) individuals each of whom has no direct or indirect material relationship to the Bourse and to an Approved Participant.
- 3) For the purpose of this article, a material relationship is a relationship which could, in the view of the Special Committee, be reasonably expected to interfere with the exercise of the independent judgment of a Disciplinary Committee member. The following individuals shall be considered to have a material relationship with the Bourse or an Approved Participant:
 - a) an individual who is or has been an employee, director or officer within the past three (3) years of the Bourse or an Approved Participant;
 - b) an individual whose Immediate Family Member is, or has been within the last three (3) years an executive officer of the Bourse or of an Approved Participant;
 - c) an individual who, or whose immediate family member, is, or has been within the last three (3) years, an officer of an entity on whose compensation committee an officer of the Bourse or an Approved Participant serves;
 - d) an individual who:
 - i) directly accepts any consulting, advisory or other compensatory fee from the Bourse or an Approved Participant other than as remuneration as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee, or the receipt of fixed amounts of deferred compensation for prior service with the Bourse or an Approved Participant that is not contingent on continued service, or
 - ii) indirectly accepts any such consulting, advisory or other compensatory fee, including acceptance of such a fee by an individual's immediate family member; and
 - e) an individual who has a relationship enumerated in subsections a) through d) of this article with an entity affiliated with the Bourse or an Approved Participant.

6377 ~~Keeping Records of~~ Recordkeeping requirements regarding Orders

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 31.01.05, 00.00.00)

- 1) With the exception of orders entered by a market maker to comply with obligations required by his role and responsibilities, each Approved Participant must maintain a complete record ~~must be kept by each approved participant~~ of each order received and executed for the purchase or sale of ~~securities~~ a Listed Product, including identifying each Approved Person of an Approved Participant who handles, or derivative instruments traded on ~~intervenes in the Bourse handling of an order.~~ The record of each unfilled or cancelled order must include the information required under paragraphs 2) and 3) of this article.
- 2) ~~The~~ Upon receipt, an Approved Participant must record ~~of~~ for each order ~~executed~~ must indicate the person who received:
 - a) the order, type;
 - b) the name or symbol of the Listed Product;
 - c) whether the order is to buy or sell;
 - d) the number of units;
 - e) the order duration qualifier;
 - f) explicit instructions regarding the price and conditions which must be met prior to the order becoming effective;
 - g) any special instructions regarding the order;
 - h) the time of receipt; and
 - i) the order's identification pursuant to article 6376.
- 3) Upon transmission of an order, the Approved Participant must add to the record the time that the order was received, the time it was entered into the electronic trading system of the Bourse, the price.
- 4) Following the variation, correction or cancellation of an order, the Approved Participant must add to the record the following information:
 - a) the date and time at which ~~the~~ variation, correction or cancellation was received;
 - b) from whom the variation, correction or cancellation originated;
 - c) any information required under paragraph 2) of this article that was ~~executed, its time of~~ changed;
 - d) the date and time the variation, correction or cancellation was entered into the electronic trading system.
- 5) Upon execution of an order, its classification pursuant to the provisions of article 6376, the approved participant from or to or through whom the security or derivative instrument traded

~~on the Bourse was purchased or sold and, as the case may be, the Approved Participant must add to the record the following information:~~

~~a) the price and time of execution;~~

~~b) if the order was executed as a pre-discussed, cross transaction, a prearranged transaction or a, or block trade pursuant to the provisions/procedures of article 6380. Such record must be retained for seven years.;~~

~~3) No-c) whether the order can be executed on the electronic trading system of the Bourse until it has been identified as above by the approved participant who received the order.~~

~~— All orders for securities was fully or derivative instruments traded on the Bourse must be time stamped/partially filled, and, if applicable, indicate any special instructions including the consent of the client to prenegotiation discussions.~~

~~4) The record of partially filled, the quantity and price of each order which remains unfilled must indicate the person who received the order, its time of receipt and its classification pursuant to the provisions of article 6376/partial fill, and such record must be retained for seven years.~~

~~5) All telephone conversations/d) when such information becomes available, the Approved Participant from whom or to whom the Listed Product was purchased or sold.~~

~~6) If available, the times of order receipt, order entry, order modification and order execution must be recorded at least to the hundredth of a second or to the millisecond.~~

~~7) An Approved Participant must maintain a record of all communications related to trading in securities or derivative instruments listed on the Bourse must be recorded. The Listed Products subject to the following conditions apply:~~

~~i) Recordings must be kept by approved participants for a period. An Approved Participant, upon request of one year.~~

~~ii) Authorization to consult the recordings of telephone conversations/Bourse, shall be granted in grant access to the ease/record of an investigation by communications to the Bourse, the Autorité des marchés financiers, or by/to any other regulatory body with which the Bourse has concluded an information sharing agreement;~~

~~iii) iii) An Approved Participant must inform clients that the record of these communications may be filed as evidence in the case of arbitration, litigation or in disciplinary matters, the recording may be filed as evidence.; and~~

~~iv) iii) An Approved participants/Participant must advise their clients of the recording of all communications related to trading in Listed Products.~~

~~8) All records required under this article must be:~~

~~a) kept for a period of seven (7) year from the date the record is created including logs of telephone conversations—and; provided however, recordings of telephone conversations need be maintained for only one (1) year from creation;~~

b) made available within ten (10) business days upon request by the Bourse;

c) provided in an electronic, transparent and understandable format to the Bourse.

9) Every recorded order must comply with the provisions of article 7452 of Rule 7.

~~6) Where an order ticket is completed, it must comply, for what concerns the information that must be entered on it, with the requirements of Section 11.2 of National Instrument 23-101 regarding Trading Rules.~~

~~7) Exceptionally~~10) Upon request, the Bourse in its discretion may grant exemptions from all or any part of the requirements set forth in paragraphs 1) to ~~58~~) above.

6377 Recordkeeping requirements regarding Orders

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 31.01.05, 00.00.00)

- 1) With the exception of orders entered by a market maker to comply with obligations required by his role and responsibilities, each Approved Participant must maintain a complete record of each order received and executed for the purchase or sale of a Listed Product, including identifying each Approved Person of an Approved Participant who handles, or intervenes in the handling of an order. The record of each unfilled or cancelled order must include the information required under paragraphs 2) and 3) of this article.
- 2) Upon receipt, an Approved Participant must record for each order:
 - a) the order type;
 - b) the name or symbol of the Listed Product;
 - c) whether the order is to buy or sell;
 - d) the number of units;
 - e) the order duration qualifier;
 - f) explicit instructions regarding the price and conditions which must be met prior to the order becoming effective;
 - g) any special instructions regarding the order;
 - h) the time of receipt; and
 - i) the order's identification pursuant to article 6376.
- 3) Upon transmission of an order, the Approved Participant must add to the record the time that the order was entered into the electronic trading system of the Bourse.
- 4) Following the variation, correction or cancellation of an order, the Approved Participant must add to the record the following information:
 - a) the date and time at which the variation, correction or cancellation was received;
 - b) from whom the variation, correction or cancellation originated;
 - c) any information required under paragraph 2) of this article that was changed;
 - d) the date and time the variation, correction or cancellation was entered into the electronic trading system.
- 5) Upon execution of an order, the Approved Participant must add to the record the following information:
 - a) the price and time of execution;

- b) if the order was executed as a pre-discussed, cross, or block trade pursuant to the procedures of article 6380;
 - c) whether the order was fully or partially filled, and if partially filled, the quantity and price of each partial fill, and
 - d) when such information becomes available, the Approved Participant from whom or to whom the Listed Product was purchased or sold.
- 6) If available, the times of order receipt, order entry, order modification and order execution must be recorded at least to the hundredth of a second or to the millisecond.
- 7) An Approved Participant must maintain a record of all communications related to trading in Listed Products subject to the following conditions:
- i) An Approved Participant, upon request of the Bourse, shall grant access to the record of communications to the Bourse, the Autorité des marchés financiers, or to any other regulatory body with which the Bourse has concluded an information sharing agreement;
 - ii) An Approved Participant must inform clients that the record of these communications may be filed as evidence in the case of arbitration, litigation or in disciplinary matters; and
 - iii) An Approved Participant must advise clients of the recording of all communications related to trading in Listed Products.
- 8) All records required under this article must be:
- a) kept for a period of seven (7) year from the date the record is created including logs of telephone conversations; *provided however*, recordings of telephone conversations need be maintained for only one (1) year from creation;
 - b) made available within ten (10) business days upon request by the Bourse;
 - c) provided in an electronic, transparent and understandable format to the Bourse.
- 9) Every recorded order must comply with the requirements of Section 11.2 of National Instrument 23-101 regarding Trading Rules.
- 10) Upon request, the Bourse in its discretion may grant exemptions from all or any part of the requirements set forth in paragraphs 1) to 8) above.

6651 _____ **Position Limits for options**

(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91, 10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 20.05.10, 25.06.12, 12.04.13, 04.06.15, 00.00.00)

~~A) A) Except as provided for those limits specified in paragraph D) of this article 6651, no approved participant or restricted trading permit holder~~ Approved Participant shall make, for any account in which it has an interest, or for the account of any client, ~~an options~~ a transaction in a Listed Product if the ~~approved participant or the restricted trading permit holder~~ Approved Participant has reason to believe that as a result of such transaction the ~~approved participant~~ Approved Participant or its client, ~~or the restricted trading permit holder~~ would, acting alone or in concert with others, directly or indirectly, hold, or control ~~or be obligated with respect to an options~~ a position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the ~~options~~ position ~~limits~~ limit established by the Bourse.

~~B) Except otherwise indicated, the applicable position limits for options are as follows:~~

~~1. Options on stocks, exchange traded funds or income trust units~~

- ~~a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;~~
- ~~b) 50,000 contracts, where either the most recent interlisted six month trading volume of transactions on the underlying stock, exchange traded fund or income trust unit totals at least 20 million shares or units, or the most recent interlisted six month trading volume of transactions totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;~~
- ~~c) 75,000 contracts, where either the most recent interlisted six month trading volume of transactions on the underlying stock, exchange traded fund or income trust unit totals at least 40 million shares or units, or the most recent interlisted six month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding;~~
- ~~d) 200,000 contracts, where either the most recent interlisted six month trading volume of transactions on the underlying stock, exchange traded fund or income trust unit totals at least 80 million shares or units, or the most recent interlisted six month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding;~~
- ~~e) 250,000 contracts, where either the most recent interlisted six month trading volume of transactions on the underlying stock, exchange traded fund or income trust unit totals at least 100 million shares or units of the underlying interest or the most recent interlisted six month trading volume on the underlying interest totals at least 75 million shares or units of the underlying interest and at least 300 million shares or units of this underlying interest are currently outstanding;~~

~~f) 300,000 contracts for options on the following exchange traded funds:~~

~~—units of the iShares S&P/TSX 60 Index Fund (XIU).~~

~~2. Debt options~~

~~—8,000 contracts.~~

~~3. Index options~~

~~—500,000 contracts.~~

~~4. Sector index options~~

~~—40,000 contracts.~~

~~5. Options on futures~~

~~—The number of contracts established as the position limits for the underlying futures contract.~~

~~For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.~~

~~6. Sponsored options~~

~~—The position limits described above apply to sponsored options. However, these position limits must be adjusted by using an equivalent unit of trading.~~

~~—When the underlying interest is traded on a market other than the Bourse, the position limits of this market apply to sponsored options by using an equivalent unit of trading.~~

~~7. Currency options~~

~~—40,000 contracts when the trading unit is 10,000 units of foreign currency. The limit will be adjusted to obtain the same notional amount if the trading unit is amended or if the Bourse introduces new trading units.~~

~~C) For the purpose of this article:~~

~~1. _____ calls~~

B) For the purposes of position limit regulations, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, must be aggregated.

C) A person with authority over one or more managed accounts must not execute or order the execution of transactions for such account or accounts where such transactions, by themselves or in addition to his personal transactions, exceed the limits prescribed under the Rules of the Bourse regarding total positions in any derivative instrument.

D) For purposes of this article:

1. Calls written, puts held and short underlying interest are ~~on the same side of the market~~all short positions and puts written, calls held and long underlying interest are ~~on the same side of the market~~long positions;
2. ~~the account of a restricted trading permit holder will not be counted with that of his clearing broker unless the clearing broker has an interest in the account;~~

~~3.~~The Bourse may, by notice in its discretion, change the position limits at any time. A change in the position limit will shall be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit; provided however, an existing position that exceeds a newly effective limit need not be reduced, but may be traded only to reduce the position until it is in compliance with the new limit. Notice of applicable position limits shall be provided by the Bourse through publication of circulars, as appropriate.

2.

~~D) Conversions, reverse conversions, long and short hedges~~

1. ~~For the purposes of this article the following defined hedges are approved by the Exchange:~~

E) Position Limits

Except as otherwise indicated, the applicable position limits for options are as follows:

1. Options on stocks, exchange-traded funds (ETF) or income trust units (ITU)

<u>Underlying</u>	<u>Contracts</u>	<u>Condition a): most recent interlisted 6-month trading volume (TV) of underlying share / units, OR</u>	<u>Condition b): most recent interlisted 6-month TV of underlying AND amount currently outstanding</u>
<u>Stock, ETF, ITU</u>	<u>25,000</u>	<u>Less than 20 million</u>	<u>Less than 40 million outstanding</u>
<u>Stock, ETF, ITU</u>	<u>50,000</u>	<u>At least 20 million</u>	<u>At least 15 million TV and 40 million outstanding</u>

<u>Stock, ETF, ITU</u>	<u>75,000</u>	<u>At least 40 million</u>	<u>At least 30 million TV and 120million outstanding</u>
<u>Stock, ETF, ITU</u>	<u>200,000</u>	<u>At least 80 million</u>	<u>At least 60 million TV and 240 million outstanding</u>
<u>Stock, ETF, ITU</u>	<u>250,000</u>	<u>At least 100 million</u>	<u>At least 75 million TV and 300 million outstanding</u>
<u>iShares S&P / TSX 60 Index Fund (XIU)</u>	<u>300,000</u>		

2. Options on debt, indexes, sector indexes, currencies

<u>Underlying</u>	<u>Contracts</u>
<u>Debt</u>	<u>8,000</u>
<u>Indexes</u>	<u>500,000</u>
<u>Sector indexes</u>	<u>40,000</u>
<u>Currency, US Dollar and Euro</u>	<u>40,000</u>

F) Exemptions

The following exemptions are only granted prospectively and shall apply and be effective at the time they are communicated by the Bourse.

1. Equity hedge exemptions

For the purposes of this article the following defined hedging transactions and positions shall be exempt from the position limit levels set forth in paragraph E), except that hedging transactions and positions described in subparagraphs g) and h) of this paragraph shall be subject to a position limit level equal to five (5) times the standard limit level set forth in paragraph E):

a) conversion: where an opening long put transaction in any- option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest ~~of the option;~~ or any derivatives position delivering the underlying interest of the option before or at the same date the option expires and at the same or a lower price than the strike price of the option;

b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest ~~of the option;~~ or any derivatives position delivering the underlying interest of the option before or

at the same date the option expires and at the same or a higher price than the strike price of the option;

c) shortlong hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;

d) longshort hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option;

~~2. In addition to the options position limits set out in paragraph B), any one account may hold an amount not exceeding the applicable paragraph B) limit of any combination of the approved hedge positions defined in sub-paragraphs D) 1. a) to D) 1. d), inclusive.~~

~~3.~~

e) collar: where a short call transaction is accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is entirely offset by a long position in the underlying interest in the option. Neither side of the short call, long put position may be in-the-money at the time the position is established;

f) reverse collar: where a long call transaction is accompanied by a short put position with the same expiry month and the strike price of the long call equals the short put and where each long call and short put are entire offset by a long position in the underlying interest of the option. Neither side of the long call, short put position may be in-the-money at the time the position is established;

g) box spread: where a long call transaction is accompanied by a short put position with the same strike price and a short call position is accompanied by a long put position with a different strike price;

h) where a listed option position is hedged on a one-for-one basis with an over-the-counter option position on the same underlying security. The strike price of the listed option position and corresponding over-the-counter option position must be within one strike of each other and no more than one expiration month apart. For purposes of this paragraph, an over-the-counter option is an option contract that is not listed on the Bourse;

i) for those strategies described in paragraphs a), b), e) and f), one component of the option strategy may be an over-the-counter option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the client account;

j) For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph ~~D~~E) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

~~E) Exemption~~

~~As described in Policy C 1, a member may file with the Exchange an application to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed in this article. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted. A bona fide hedger may also under certain circumstances file directly with the Exchange, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Exchange.~~

G) Additional exemption

1. Approved Participant may also file with the Bourse, for itself or its client, an exemption request pursuant to article 14157 relating to (i) Bona Fide Hedge positions or transactions or (ii) risk-management positions or transactions. A client may alternatively file an application on its own behalf.
2. Unless an exemption under this article is automatic or subject to a different process specified in this article, applications for exemption shall be submitted to the Regulatory Division in accordance with the procedures set forth in article 14157.

H) Compliance

1. Any Approved Participant that maintains an options' position in such person's own account or in a client account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of this article.
2. Violation of any of the provisions of this article, absent reasonable justification or excuse, shall result in withdrawal of the exemption and may form the basis for subsequent denial of an exemption request hereunder.

6651 Position Limits for options

(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91,10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 20.05.10, 25.06.12, 12.04.13, 04.06.15,00.00.00)

- A) Except for those limits specified in article 6651, no Approved Participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a Listed Product if the Approved Participant has reason to believe that as a result of such transaction the Approved Participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limit established by the Bourse.
- B) For the purposes of position limit regulations, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, must be aggregated.
- C) A person with authority over one or more managed accounts must not execute or order the execution of transactions for such account or accounts where such transactions, by themselves or in addition to his personal transactions, exceed the limits prescribed under the Rules of the Bourse regarding total positions in any derivative instrument.
- D) For purposes of this article:
 - 1) Calls written, puts held and short underlying interest are all short positions and puts written, calls held and long underlying interest are long positions;
 - 2) The Bourse may, in its discretion, change the position limits at any time. A change in the position limit shall be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit; provided however, an existing position that exceeds a newly effective limit need not be reduced, but may be traded only to reduce the position until it is in compliance with the new limit. Notice of applicable position limits shall be provided by the Bourse through publication of circulars, as appropriate.

E) Position Limits

Except as otherwise indicated, the applicable position limits for options are as follows:

- 1. Options on stocks, exchange-traded funds (ETF) or income trust units (ITU)

Underlying	Contracts	Condition a): most recent interlisted 6-month trading volume (TV) of underlying share / units, <u>OR</u>	Condition b): most recent interlisted 6-month TV of underlying AND amount currently outstanding
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Stock, ETF, ITU	25,000	Less than 20 million	Less than 40 million outstanding
Stock, ETF, ITU	50,000	At least 20 million	At least 15 million TV and 40 million outstanding
Stock, ETF, ITU	75,000	At least 40 million	At least 30 million TV and 120million outstanding
Stock, ETF, ITU	200,000	At least 80 million	At least 60 million TV and 240 million outstanding
Stock, ETF, ITU	250,000	At least 100 million	At least 75 million TV and 300 million outstanding
iShares S&P / TSX 60 Index Fund (XIU)	300,000		

2. Options on debt, indexes, sector indexes, currencies

Underlying	Contracts
Debt	8,000
Indexes	500,000
Sector indexes	40,000
Currency, US Dollar and Euro	40,000

F) Exemptions

The following exemptions are only granted prospectively and shall apply and be effective at the time they are communicated by the Bourse.

1) Equity hedge exemptions

For the purposes of this article the following defined hedging transactions and positions shall be exempt from the position limit levels set forth in paragraph E), except that hedging transactions and positions described in subparagraphs g) and h) of this paragraph shall be subject to a position limit level equal to five (5) times the standard limit level set forth in paragraph E):

- a) conversion: where an opening long put transaction in any option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest or any derivatives position

delivering the underlying interest of the option before or at the same date the option expires and at the same or a lower price than the strike price of the option;

b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest or any derivatives position delivering the underlying interest of the option before or at the same date the option expires and at the same or a higher price than the strike price of the option;

c) long hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;

d) short hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option;

e) collar: where a short call transaction is accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is entirely offset by a long position in the underlying interest in the option. Neither side of the short call, long put position may be in-the-money at the time the position is established;

f) reverse collar: where a long call transaction is accompanied by a short put position with the same expiry month and the strike price of the long call equals the short put and where each long call and short put are entirely offset by a long position in the underlying interest of the option. Neither side of the long call, short put position may be in-the-money at the time the position is established;

g) box spread: where a long call transaction is accompanied by a short put position with the same strike price and a short call position is accompanied by a long put position with a different strike price;

h) where a listed option position is hedged on a one-for-one basis with an over-the-counter option position on the same underlying security. The strike price of the listed option position and corresponding over-the-counter option position must be within one strike of each other and no more than one expiration month apart. For purposes of this paragraph, an over-the-counter option is an option contract that is not listed on the Bourse;

i) for those strategies described in paragraphs a), b), e) and f), one component of the option strategy may be an over-the-counter option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the client account;

j) for all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph F) 1. a) and b), such limits shall apply as if

calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

G) Additional exemption

- 1) Approved Participant may also file with the Bourse, for itself or its client, an exemption request pursuant to article 14157 relating to (i) Bona Fide Hedge positions or transactions or (ii) risk-management positions or transactions. A client may alternatively file an application on its own behalf.
- 2) Unless an exemption under this article is automatic or subject to a different process specified in this article, applications for exemption shall be submitted to the Regulatory Division in accordance with the procedures set forth in article 14157.

H) Compliance

- 1) Any Approved Participant that maintains an options' position in such person's own account or in a client account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of this article.
- 2) Violation of any of the provisions of this article, absent reasonable justification or excuse, shall result in withdrawal of the exemption and may form the basis for subsequent denial of an exemption request hereunder.

14157 Position Limits for ~~Derivative Instruments~~Futures and Options on Futures
(24.04.84, 30.12.93, 13.09.05, 04.03.08, 00.00.00)

~~No approved participant~~a) Except for those limits specified in article 6651 and in Rule 15, no Approved Participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a ~~specific derivative instrument listed on the Bourse~~Listed Product if the ~~approved participant~~Approved Participant has reason to believe that as a result of such transaction the ~~approved participant~~Approved Participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limit established by the Bourse.

b) For the purposes of position limit regulations, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, must be aggregated.

c) A person with authority over one or more managed accounts must not execute or order the execution of transactions for such account or accounts where such transactions, by themselves or in addition to his personal transactions, exceed the limits prescribed under the Rules of the Bourse regarding total positions in any derivative instrument.

Exemptions

~~In accordance with~~ d) Position Limits

1) The position limits for futures contracts are included in Rule 15, located with the provision~~terms and conditions~~ of Policy C 1, an approved participant may file, in the form prescribed, an application to the Bourse, to obtain on behalf of a bona fide hedger an~~each~~ specific futures contract.

2) The position limits for options on futures are the same as the underlying futures contract. Options contract positions are aggregated with the underlying futures contract positions for purposes of position limits with each option aggregated as the equivalent of a futures contract.

e) Exemptions.

An Approved Participant may apply to the Bourse on behalf of itself or a customer, or a customer may under specified conditions apply to the Bourse directly, for exemption from the position limits ~~prescribed for hedging or risk management positions in the form and manner specified in this article.~~

f) Procedures for requesting an exemption

The application shall be filed electronically on a form approved by the Bourse.

1) A bona fide hedger may also under certain circumstances file directly with the Bourse, in addressed to the form prescribed, an Regulatory Division. The application to obtain an exemption from the shall include:

- a) a statement that the request is for a new exemption, or for the renewal or increase of an existing exemption;
- b) the requested position limits prescribed limit and desired duration of the exemption;
- c) a detailed statement of the open positions and a descriptions of upcoming positions in the Listed Product. This statement shall include the number of contracts, the expected maturity of the positions and the direction (long or short) of the positions. In the case of options, the statement must indicate the Exercise Price and the type of option;
- d) a detailed explanation supporting the requested hedge or risk management exemption, including:
 - i) a statement to the effect that the positions were, and are, bona fide hedging transactions or for risk management purposes;
 - ii) a complete and accurate description of the underlying cash or over-the-counter market positions for which the exemption is sought and demonstration of ownership of the underlying asset or liability to be hedged, or of the risk to be managed;
 - iii) an explanation supporting the applicant's position that the exemption is appropriate; and
 - iv) any additional information or documents requested by the Bourse related to the application, including information that enables the Bourse to assess the financial situation of the applicant;
- e) an undertaking to provide the Bourse with a daily statement of open positions in the contracts for which the exemption is sought and in any underlying cash or over-the-counter market;
- f) an undertaking to comply with the Rules, policies and procedures of the Bourse as well as with the terms and restrictions of the exemption;
- g) an undertaking to notify the Bourse without delay of any material change in the information provided with the exemption request;
- h) an undertaking to liquidate the positions in an orderly fashion upon maturity or at any other time; and
- i) an acknowledgement that the Bourse may at any time review, modify or revoke an exemption from a position limit.

2) The following positions qualify as positions taken for risk management purposes:

a) a position taken by a Person who regularly buys, sells or carries positions in the cash market underlying a Listed Product; and

b) a position taken by a Person who regularly buys, sells or carries positions in a Listed Product on the stock market or over-the-counter market. This market must be sufficiently liquid relative to the size of the position held.

3) The exemption request must be filed as soon as the position limit for a Listed Product is reached or the Approved Participant or client realizes that the limit will be breached as a result of an anticipated transaction. In no event may an exemption request be filed later than 10:30 A.M. (Montreal time) on the first business day following the day on which the limit is reached and shall provide justification for the late filing of the request. A renewal request must be filed no later than ten (10) business days before expiration of the exemption.

4) The Approved Participant or the client may file within the prescribed time, an application with the Vice-President, Regulatory Division, or his or her designee, to obtain an extension of the exemption request filing period. The time extension granted by the Vice-President, Regulatory Division, or his or her designee, to file a request for exemption shall not exceed five (5) business days after the day on which the position limit is reached.

5) The Bourse shall determine at its discretion whether or not an exemption shall be granted and it may review, revoke, or modify any exemptions granted under this paragraph. The exemption shall be effective upon receipt by the applicant of the decision.

6) The Regulatory Division staff shall communicate the exemption decision to the applicant as soon as practicable, generally on the day following the Bourse's review. The decision may be communicated orally, followed by written confirmation, setting forth the terms and conditions of the exemption.

7) The Bourse's approval may be given on the basis of oral representations, in which case the applicant shall, within the time designated by the Bourse, furnish the Regulatory Division with appropriate documentation substantiating the basis for the exemption.

8) If the exemption request is rejected, the Approved Participant or client shall reduce the position below the prescribed limit within the period and subject to any conditions set by the Bourse.

9) An exemption from a position limit granted by the Bourse shall not exceed three (3) months from the filing of the request. If an Approved Participant or a client seeks to renew or modify an exemption, it must file a new exemption request in accordance with these procedures.

g) Processing of Applications for Exemption

1) The Bourse will not consider an exemption request until it determines that the applicant has submitted all the required information

2) All decisions on exemption requests shall be made by the Vice-President, Regulatory Division, or his or her designee, who shall be a member of the Regulatory Division. If their decision can be obtained within a reasonable period, the Vice-President, Regulatory Division, or his or her designee, shall consult with the Internal Consultation Committee, which shall include the following persons or their designees:

- a) Chief Legal Officer;
- b) Vice-President, CDCC Risk Management;
- c) Vice-President, Financial Markets; and
- d) Vice-President, Research and Development.

h) Factors Considered in Assessing an Exemption Request

1) The factors that shall be considered when assessing an exemption request from a position limit include, but are not limited to the following:

- a) the reputation and financial capacity of the Approved Participant or the client;
- b) the level of the Approved Participant's or the client's inventory in the underlying cash market instrument or its over-the-counter market positions relative to the limit sought by the Approved Participant or the client;
- c) the Approved Participant's or the client's recent activity in the market for which the request is made;
- d) the regular activity in the market for which the request is made (liquidity, open interest, etc.);
- e) the proposed strategy by the Approved Participant or the client; and
- a)f) any other factor deemed relevant by the Vice-President, Regulatory Division, or his or her designee.

14157 Position Limits for Futures and Options on Futures

(24.04.84, 30.12.93, 13.09.05, 04.03.08, 00.00.00)

a) Except for those limits specified in article 6651 and in Rule 15, no Approved Participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a Listed Product if the Approved Participant has reason to believe that as a result of such transaction the Approved Participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limit established by the Bourse.

b) For the purposes of position limit regulations, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, must be aggregated.

c) A person with authority over one or more managed accounts must not execute or order the execution of transactions for such account or accounts where such transactions, by themselves or in addition to his personal transactions, exceed the limits prescribed under the Rules of the Bourse regarding total positions in any derivative instrument.

d) Position Limits

a) The position limits for futures contracts are included in Rule 15, located with the terms and conditions of each specific futures contract.

b) The position limits for options on futures are the same as the underlying futures contract. Options contract positions are aggregated with the underlying futures contract positions for purposes of position limits with each option aggregated as the equivalent of a futures contract.

e) Exemptions.

An Approved Participant may apply to the Bourse on behalf of itself or a customer, or a customer may under specified conditions apply to the Bourse directly, for exemption from the position limits for hedging or risk management positions in the form and manner specified in this article.

f) Procedures for requesting an exemption

1) The application shall be filed electronically on a form approved by the Bourse, addressed to the Regulatory Division. The application shall include:

a) a statement that the request is for a new exemption, or for the renewal or increase of an existing exemption;

b) the requested position limit and desired duration of the exemption;

c) a detailed statement of the open positions and a descriptions of upcoming positions in the Listed Product. This statement shall include the number of contracts, the expected maturity of the positions and the direction (long or

short) of the positions. In the case of options, the statement must indicate the Exercise Price and the type of option;

- d) a detailed explanation supporting the requested hedge or risk management exemption, including:
 - i) a statement to the effect that the positions were, and are, bona fide hedging transactions or for risk management purposes;
 - ii) a complete and accurate description of the underlying cash or over-the-counter market positions for which the exemption is sought and demonstration of ownership of the underlying asset or liability to be hedged, or of the risk to be managed;
 - iii) an explanation supporting the applicant's position that the exemption is appropriate; and
 - iv) any additional information or documents requested by the Bourse related to the application, including information that enables the Bourse to assess the financial situation of the applicant;
 - e) an undertaking to provide the Bourse with a daily statement of open positions in the contracts for which the exemption is sought and in any underlying cash or over-the-counter market;
 - f) an undertaking to comply with the Rules, policies and procedures of the Bourse as well as with the terms and restrictions of the exemption;
 - g) an undertaking to notify the Bourse without delay of any material change in the information provided with the exemption request;
 - h) an undertaking to liquidate the positions in an orderly fashion upon maturity or at any other time; and
 - i) an acknowledgement that the Bourse may at any time review, modify or revoke an exemption from a position limit.
- 2) The following positions qualify as positions taken for risk management purposes:
- a) a position taken by a Person who regularly buys, sells or carries positions in the cash market underlying a Listed Product; and
 - b) a position taken by a Person who regularly buys, sells or carries positions in a Listed Product on the stock market or over-the-counter market. This market must be sufficiently liquid relative to the size of the position held.
- 3) The exemption request must be filed as soon as the position limit for a Listed Product is reached or the Approved Participant or client realizes that the limit will be breached as a result of an anticipated transaction. In no event may an exemption request be filed later than 10:30 A.M. (Montreal time) on the first business day following the day on which the limit is reached and shall provide justification for the

late filing of the request. A renewal request must be filed no later than ten (10) business days before expiration of the exemption.

- 4) The Approved Participant or the client may file within the prescribed time, an application with the Vice-President, Regulatory Division, or his or her designee, to obtain an extension of the exemption request filing period. The time extension granted by the Vice-President, Regulatory Division, or his or her designee, to file a request for exemption shall not exceed five (5) business days after the day on which the position limit is reached.
- 5) The Bourse shall determine at its discretion whether or not an exemption shall be granted and it may review, revoke, or modify any exemptions granted under this paragraph. The exemption shall be effective upon receipt by the applicant of the decision.
- 6) The Regulatory Division staff shall communicate the exemption decision to the applicant as soon as practicable, generally on the day following the Bourse's review. The decision may be communicated orally, followed by written confirmation, setting forth the terms and conditions of the exemption.
- 7) The Bourse's approval may be given on the basis of oral representations, in which case the applicant shall, within the time designated by the Bourse, furnish the Regulatory Division with appropriate documentation substantiating the basis for the exemption.
- 8) If the exemption request is rejected, the Approved Participant or client shall reduce the position below the prescribed limit within the period and subject to any conditions set by the Bourse.
- 9) An exemption from a position limit granted by the Bourse shall not exceed three (3) months from the filing of the request. If an Approved Participant or a client seeks to renew or modify an exemption, it must file a new exemption request in accordance with these procedures.

g) Processing of Applications for Exemption

- 1) The Bourse will not consider an exemption request until it determines that the applicant has submitted all the required information
- 2) All decisions on exemption requests shall be made by the Vice-President, Regulatory Division, or his or her designee, who shall be a member of the Regulatory Division. If their decision can be obtained within a reasonable period, the Vice-President, Regulatory Division, or his or her designee, shall consult with the Internal Consultation Committee, which shall include the following persons or their designees:
 - a) Chief Legal Officer;
 - b) Vice-President, CDCC Risk Management;
 - c) Vice-President, Financial Markets; and

d) Vice-President, Research and Development.

h) Factors Considered in Assessing an Exemption Request

- 1) The factors that shall be considered when assessing an exemption request from a position limit include, but are not limited to the following:
 - a) the reputation and financial capacity of the Approved Participant or the client;
 - b) the level of the Approved Participant's or the client's inventory in the underlying cash market instrument or its over-the-counter market positions relative to the limit sought by the Approved Participant or the client;
 - c) the Approved Participant's or the client's recent activity in the market for which the request is made;
 - d) the regular activity in the market for which the request is made (liquidity, open interest, etc.);
 - e) the proposed strategy by the Approved Participant or the client; and
 - f) any other factor deemed relevant by the Vice-President, Regulatory Division, or his or her designee.

POLICY C-1

~~EXEMPTION REQUEST FROM A POSITION LIMIT~~
~~(08.09.89, 30.12.93, 15.05.15)~~

This policy explains the filing procedure for an exemption request from a position limit and describes how the application is processed.

I. REQUEST

~~1. An *Approved Participant* or a client may file an exemption request from a position limit with the *Bourse*.~~

~~An exemption request must be addressed to the Regulatory Division of the *Bourse* in writing, and sent electronically.~~

~~2. An exemption request is made by filling out the appropriate form and shall include the following information:~~

~~1° a statement to the effect that the request is either a new request, a request for increasing a limit under an existing exemption or a request for the renewal of an existing exemption;~~

~~2° a detailed statement of the open positions and a description of upcoming positions in the *Derivative*. The statement shall include the number of contracts, the expected maturity of the positions and the direction (long or short) of the positions. In the case of options, the statement must indicate the *Exercise Price* and the type of option. The description of upcoming positions must contain the same information if it is available;~~

~~3° the requested position limit and desired duration of the exemption;~~

~~4° a statement to the effect that the positions are bona fide hedging transactions or that they were taken or will be taken for risk management purposes;~~

~~This statement must be accompanied by a complete and accurate description of the positions taken in the *Underlying Interest* or in a security related to the *Underlying Interest* of the *Derivative* for which the exemption is sought. The existence and ownership of the *Underlying Interest* or of the security related to the *Underlying Interest* must be demonstrated;~~

~~5° an undertaking to provide any information or document which the *Bourse* may deem relevant, including any information which allows the *Bourse* to assess the financial situation of the applicant;~~

~~6°—an undertaking to provide the *Bourse* with a daily statement of open positions in the *Derivative* for which the exemption is sought and in any *Underlying Interest* or security related to the *Underlying Interest*;~~

~~7°—an undertaking to comply with the *Rules*, policies and procedures of the *Bourse* as well as with the terms and restrictions of the exemption;~~

~~8°—an undertaking to notify the *Bourse* without delay of any material change in the information provided with the exemption request;~~

~~9°—an undertaking to liquidate the positions in an orderly fashion upon maturity or at any other time; and~~

~~10°—an acknowledgement that the *Bourse* may at any time, for valid reasons, modify or revoke an exemption from a position limit.~~

~~3.—To be admissible, an exemption request shall serve a risk management purpose or shall relate to a *Bona Fide Hedger* account, as defined in section 14226 and 14227 of the *Rules*.~~

~~An exemption from a position limit shall not be granted for a speculative account.~~

~~4.—The following positions qualify as positions taken for risk management purposes:~~

~~1°—a position taken by a *Person* who regularly buys, sells or carries positions in the cash market underlying a *Derivative*; and~~

~~2°—a position taken by a *Person* who regularly buys, sells or carries positions in a *Derivative* on the stock market or OTC market. This market must be sufficiently liquid relative to the size of the position held.~~

~~5.—An exemption request from a position limit shall be filed the moment the position limit for a specific *Derivative* is reached or the moment the *Approved Participant* or client realizes that the limit will be breached as a result of an anticipated transaction.~~

~~Where an exemption request cannot be filed immediately, it shall be filed not later than 10:30 A.M. (Montreal time) on the first business day following the day on which the limit is reached and shall provide justification for the late filing of the request.~~

~~6.—The *Approved Participant* or the client may file an application with the Vice President, Regulatory Division of the *Bourse*, or his or her designee, to obtain an extension of the exemption request filing period. This application shall be filed before the *Approved Participant* or the client fails to file an exemption request within the prescribed time.~~

~~The time extension granted by the Vice President, Regulatory Division of the *Bourse*, or his or her designee, to file a request for exemption shall not exceed five (5) business days after the day on which the position limit is reached.~~

- ~~7. An *Approved Participant* or client who fails to comply with the prescribed time period for filing an exemption request must immediately liquidate the positions who exceed the prescribed limit.~~

II. PROCESSING REQUESTS FOR EXEMPTION FROM POSITION LIMITS

- ~~8. If all the required information is included in an exemption request, the applicant shall be notified of the approval or refusal as soon as possible after the request is received by the Regulatory Division of the *Bourse*.~~

- ~~9. Only the Vice President, Regulatory Division of the *Bourse*, or his or her designee, may decide to accept or refuse a request for exemption from a position limit.~~

~~The designee of the Vice President, Regulatory Division of the *Bourse* shall come from the Regulatory Division of the *Bourse*.~~

~~Before making a decision, the Vice President, Regulatory Division of the *Bourse*, or his or her designee, shall submit each exemption request to the Internal Consultation Committee.~~

- ~~10. The Internal Consultation Committee include the following persons or their designees:~~

- ~~1) Vice President, Legal Affairs;~~
- ~~2) Vice President, CDCC Risk Management;~~
- ~~3) Vice President, Financial Markets; and~~
- ~~4) Vice President, Research and Development.~~

- ~~11. The Internal Consultation Committee may be consulted in person, by phone or by electronic messaging.~~

- ~~12. Each member of the Internal Consultation Committee, or his or her designee, shall be provided with the exemption request form, all information provided with the exemption request and any other document on which the Vice President, Regulatory Division of the *Bourse*, or his or her designee, intends to base his or her decision.~~

- ~~13. The Vice President, Regulatory Division of the *Bourse*, or his or her designee, may issue a decision if the opinion of the members of the Internal Consultation Committee cannot be obtained within a reasonable time.~~

~~III. CONSIDERED FACTORS IN ASSESSING AN EXEMPTION REQUEST FROM A POSITION LIMIT~~

- ~~14. The following factors shall be considered by the Vice President, Regulatory Division of the *Bourse*, or his or her designee, when assessing an exemption request from a position limit:~~
- ~~1° the reputation and financial capacity of the *Approved Participant* or the client;~~
 - ~~2° the level of the *Approved Participant*'s or the client's inventory in the *Underlying Interest* or in securities related to such *Underlying Interest* relative to the limit sought by the *Approved Participant* or the client;~~
 - ~~3° the *Approved Participant*'s or the client's recent activity in the market for which the request is made;~~
 - ~~4° the regular activity in the market for which the request is made (liquidity, open interest, etc.);~~
 - ~~5° the proposed strategy by the *Approved Participant* or the client; and~~
 - ~~6° any other factor deemed relevant by the Vice President, Regulatory Division of the *Bourse* or his or her designee.~~
- ~~15. The Vice President, Regulatory Division of the *Bourse*, or his or her designee, may at any time require additional information from an *Approved Participant* or a client.~~

~~IV. COMMUNICATION AND EFFECTS OF THE DECISION~~

- ~~16. The decision of the Vice President, Regulatory Division of the *Bourse*, or of his or her designee, shall be communicated to the applicant as soon as possible, followed by written confirmation.~~
- ~~— When the exemption request is approved, the written confirmation shall set forth the terms and restrictions of the exemption.~~
- ~~17. The exemption shall be effective when the applicant receives the decision.~~
- ~~18. Where the Vice President, Regulatory Division of the *Bourse*, or his or her designee, refuses an exemption request, the applicant shall have a reasonable time to liquidate, in an orderly fashion the positions that are in excess of the prescribed limit.~~
- ~~19. Where the Vice President, Regulatory Division of the *Bourse*, or his or her designee, refuses an exemption request from a client and the positions in excess of the prescribed limit are not liquidated in a reasonable time, the Vice President, Regulatory Division of the *Bourse* may order each *Approved Participant* with whom the client carries a position to reduce such position proportionately.~~

~~20. All exemptions from position limits are temporary.~~

~~The duration of an exemption is determined by the Vice President, Regulatory Division of the *Bourse*, or his or her designee, and shall not exceed three (3) months from the filing of the request.~~

~~21. The Vice President, Regulatory Division of the *Bourse*, or his or her designee, may review, amend or terminate an exemption.~~

~~V. RENEWING, AMENDING, REVOKING OR INCREASING AN EXEMPTION~~

~~22. An *Approved Participant* or a client wishing to increase or renew the limit under an exemption from a position limit must file an exemption request using the appropriate form.~~

~~23. An *Approved Participant* or a client wishing to increase the limit under an exemption from a position limit must file a request for exemption.~~

~~The exemption request shall be filed the moment it becomes obvious that the limit is insufficient, but not later than 10:30 A.M. (Montréal time) on the business day following the day on which the limit is breached.~~

~~24. An *Approved Participant* or a client wishing to renew an exemption from a position limit must file a request for exemption with the Vice President, Regulatory Division of the *Bourse*.~~

~~The exemption request shall be filed not later than ten (10) business days before the expiration date of the exemption.~~

~~25. The decision-making process set forth in Parts II, III and IV of this Policy shall apply when an *Approved Participant* or a client requests an increase or renewal of a limit under an exemption from a position limit.~~

ANNEXE A

**STANDARDIZED FORM
EXEMPTION REQUEST FOR POSITION LIMITS ON DERIVATIVES TRADED
ON BOURSE DE MONTRÉAL INC.**

Indicate if this is:

A new request

or

An increase or a renewal of an existing exemption

1. Name of the beneficiary owner(s) of the account for whom this request is submitted:

2. Address: _____

City: _____ Province or State: _____

Postal or Zip Code: _____ Country: _____

Name and title of the person responsible for the account:

Phone: (____) _____ Fax: (____) _____

E-mail: _____

3. Attach an appendix which provides the following information for each approved participant with whom the applicant holds one or more accounts.

- 1) Name of the approved participant;
- 2) Name(s) of the person(s) responsible for the account;
- 3) Account number(s);
- 4) Phone number(s) of the responsible person(s) at the approved participant;
- 5) Fax number (s) of the responsible person(s) at the approved participant;
- 6) E-mail address(s) of the responsible person(s) at the approved participant.

4. If an approved participant identified in section 3 has not or will not clear the positions with the CDCC, attach an appendix which provides the following information for each clearing broker who has or will undertake the clearing of the applicant's positions.

- 1) Name of the clearing broker;
- 2) Name(s) of the person(s) responsible for the account;
- 3) Account number(s);
- 4) Phone number(s) of the responsible person(s) at the clearing broker;
- 5) Fax number(s) of the responsible person(s) at the clearing broker;
- 6) E-mail address(s) of the responsible person(s) at the clearing broker.

ANNEXE A

**STANDARDIZED FORM
EXEMPTION REQUEST FOR POSITION LIMITS ON DERIVATIVES TRADED
ON BOURSE DE MONTRÉAL INC.**

5. Indicate the *Bourse* traded *derivative* for which an exemption from position limits is being requested, the requested limit, the desired length of the exemption and the side (long or short) of positions.

Product (Symbol): _____

Requested limit (number of contracts): _____

Long: _____

Short: _____

Length of the exemption (maximum of 3 months): _____

6. Include a detailed statement of current open positions in this *derivative* as well as a detailed description of upcoming positions in the *derivative*, if they are known. The statement and description shall especially mention the following information :

- 1) the number of contracts;
- 2) the expiration date;
- 3) whether the positions are long or short;
- 4) the strike price if it's an option.

7. Exemption type:

- Hedger (*Bona Fide Hedger* – see definitions in articles 14226 and 14227 of the Rules of the *Bourse*)
- Risk management (see definition in section 4 of Policy C-1)

8. Include a detailed statement of current positions in the *Underlying Interest* of the above-mentioned *derivative* or in securities related to this *Underlying Interest*.

This statement shall demonstrate the existence and ownership of this *Underlying Interest* or of the securities related to this *Underlying Interest*.

9. Include any other information considered useful for the purpose of this request.

ANNEXE A

**STANDARDIZED FORM
EXEMPTION REQUEST FOR POSITION LIMITS ON DERIVATIVES TRADED
ON BOURSE DE MONTRÉAL INC.**

DECLARATIONS AND UNDERTAKINGS

1. The undersigned declares that positions declared in this request are real bona fide hedges or that they have been taken or will be taken for risk management purposes and that their description is complete and accurate.
2. The undersigned promises to provide any other information or document that the Bourse could deem relevant to request, including any information allowing the *Bourse* to know and assess the financial situation of the applicant.
3. If the requested exemption is granted, the undersigned undertakes to provide the *Bourse* with a daily statement not only of open positions in the *derivative* instrument subjected to such exemption but also in the *Underlying Interest* or in the security related to such *Underlying Interest* and this as long as the exemption will be in force.
4. The undersigned undertakes to comply with all the Rules, Policies and Procedures of the *Bourse* as well as with all the conditions and limitations that could be imposed by the *Bourse* in connection with the granted exemption.
5. The undersigned undertakes to communicate promptly to the *Bourse* any significant change in the information provided in this request for exemption.
6. The undersigned undertakes to liquidate in an orderly fashion all positions held in the relevant *derivative* instrument on expiry or at any other time where it is determined by the undersigned or by the *Bourse* that it is necessary to liquidate these positions in whole or in part.
7. The undersigned acknowledges that the *Bourse* may at any time and for any valid reason, amend or withdraw any position limit exemption it has granted.

No exemption and no increase or renewal of such exemption shall be considered as having been approved or in force as long as the approval of such has been confirmed verbally and in writing by the Regulatory Division of the *Bourse*. Any exemption, increase or renewal of such exemption shall be for a limited period of time and in no case shall such exemption, increase or renewal be valid for a period of time exceeding three (3) months from the date on which it has been granted.

The approval of this request does not in any way limit the authority of the *Bourse* to take any emergency measures or to take any discretionary decision if taking such measures or such decision is necessary to ensure market integrity. The *Bourse* can also improve additional conditions to any exemption already granted or withdraw such exemption if it deems it necessary in reason of operational regulatory or financial problems of the exemption beneficiary or in reason of matters related to market integrity, lack of market liquidity or depth or any other situation that may be causing a risk for the *Bourse*, for the learning corporation and for market participants.

ANNEXE A

**STANDARDIZED FORM
EXEMPTION REQUEST FOR POSITION LIMITS ON DERIVATIVES TRADED
ON BOURSE DE MONTRÉAL INC.**

The undersigned certifies that he/she is authorized to sign and submit this request.

Name of applicant (client or approved participant for the account of whom the exemption request is submitted):

Submitted by (complete name): _____

Position/Title: _____ Phone: _____

E-mail : _____

Date : _____