CIRCULAR 159-20
September 18, 2020

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. REGARDING THE INTRODUCTION OF AN APPROVED DEFINED HEDGE FOR SHARE FUTURES CONTRACTS

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") and the Special Committee of the Regulatory Division of the Bourse approved amendments to the Rules of the Bourse in order to include an approved defined hedge exemption from position limit requirements for futures contracts whose underlying interests are listed stocks, trust units or exchanged-traded funds.

Comments on the proposed amendments must be submitted at the latest on **October 19, 2020**. 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[e] Philippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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Fax : (514) 864-8381
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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. Unless specified otherwise, comments will be published anonymously by the Bourse.

Appendices

You will find in the appendices an analysis 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 established 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, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with 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 (the "**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.

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. REGARDING THE INTRODUCTION OF AN APPROVED DEFINED HEDGE FOR SHARE FUTURES CONTRACTS

CONTENTS

I. SUMMARY

Bourse de Montréal Inc. (the "Bourse") and its Regulatory Division (the "Division") are proposing an amendment to the Rules of the Bourse (the "Rules") to include an approved defined hedge exemption from position limit requirements for futures contracts whose underlying interests are listed stocks, trust units or exchanged-traded funds ("Share Futures Contracts" or "Share Futures").

In recent months, there has been significant growth in the level of open interest of Share Futures Contracts listed on the Bourse. The increase mainly results from institutional investor interest. As those trades that tend to exceed the position limits applicable to Share Future Contracts have a physical component, hence a bona fide hedge, the Division has seen a concomitant rise in exemption requests. The resources deployed by the Division to handle these exemption requests have led to the conclusion that the current request process may not be optimal for these specific transactions.

Therefore, the Bourse proposes to include an approved defined hedge exemption for Share Futures Contracts in the Rules as an appropriate alternative to market participants while at the same time not compromising the integrity of the market and the Division's ability to conduct its regulatory activities.

II. PROPOSED AMENDMENTS

The Bourse proposes amendments to introduce an approved defined hedge exemption on Share Futures Contracts for market participants. Positions where the Share Futures position is fully hedged by the corresponding underlying interest will be exempted from statutory position limits prescribed by the Rules.

This change is proposed to better align the list of eligible hedging exemptions with the type of trading activities. The Bourse believes that this proposed amendment will allow market participants to initiate large positions in Share Futures Contracts, when holding an equivalent interest in the underlying listed stocks, trust units or exchanged-traded funds, which constitutes a bona fide hedge, a scenario unlikely to adversely affect the market.

This proposed amendment is in addition to the proposed amendments to the Rules regarding position limits that were published in November 2019.[1]

The proposed amendment is attached hereto as Appendix 1.

III. ANALYSIS

a. Background

The Bourse has the responsibility to operate in a manner that counters market abuse and manipulation, fraud and deceptive trading[2], and fosters fair and orderly markets in the public interest. As such, the Bourse is committed to establishing position limits at levels that are low enough to ensure these limits are effective at preventing market abuse, but sufficiently high enough to avoid adverse impacts on the market. The Rules also provide for specific situations where a market participant can be exempted from applying such position limits.

[1] Circular 149-19: Request for comments published on November 21, 2019

[2] Article 41, Derivatives Act, chapter I-14.01.s

In November 2019, after performing a holistic review of its methodology and approach for setting and applying position limits for all of its products, the Bourse proposed several amendments to the Rules.[3] At the time the review was performed, the methodology and approach in place for setting and applying position limits for Share Futures were deemed appropriate. However, in recent months, there has been an increased interest in Share Futures Contracts whereby institutional investors are seeking alternative ways to assume hedged equity positions. Consequently, the Division has experienced an increase in exemption requests. The Division believes this proposal is appropriate to meet this growing demand because these bona fide hedged positions are currently eligible for an exemption to the position limit[4], if requested.

Accordingly, the Bourse has considered the addition of an eligible hedging exemption from position limits on Share Futures Contracts to take into consideration current and prospective market practices.

b. Objectives

The objective of this proposal is to facilitate the holding of large positions of listed Share Futures Contracts by investors seeking to hedge their position in the corresponding underlying interest.

Given that position limits may be too low and the current processing time of the exemption request may not meet the expectation of such investors, they may choose not to hedge their cash positions with Share Futures products offered by the Bourse. The delay or uncertainty of the current exemption process, which requires approval from the Division, may prevent such trades from taking place on the Bourse and favor over-the-counter or off-exchange alternatives.

c. Proposal and analysis

In December 2016, the Bourse launched trading of Share Futures on 20 stocks listed on the Toronto Stock Exchange, some of which were interlisted on other global equity markets, in order to expand trading opportunities for institutional investors. In June 2018, the Bourse expanded its offering with the introduction of Share Futures on trust units and exchange-traded funds.[5] As of June 30, 2020, the Bourse had Share Futures Contracts listed on 118 stocks and trust units, and on 12 exchange traded funds.[6]

In June 2018, the Bourse introduced the "Basis Trade on Close" ("BTC") functionality[7] that allows participants to trade "basis spread type" orders on index futures, sector index futures and Share Futures Contracts on the Bourse's electronic trading platform. As of June 30, 2020, the BTC functionality was enabled on all 118 listed Share Futures Contracts whose underlying interests are listed stocks and trust units. With the Bourse's offering in Share Futures Contracts and the BTC functionality, market participants have a wider range of products and functionalities to implement their strategies.

Since February 2020, interest from some market participants to trade Share Futures Contracts has significantly increased. Month-end open interest of all Share Futures combined, whose underlying interests are listed stocks and trust units, show low to moderate monthly variations between January 2019 and January

[3] Circular 149-19: Request for comments published on November 21, 2019

[4] Appendix 6D—Policy C-1: Exemption Request from a Position Limit of the Rules

[5] https://www.m-x.ca/f_circulaires_en/071-18_en.pdf

[6] https://www.m-x.ca/f_circulaires_en/116-20_en.pdf

[7] https://www.m-x.ca/f_circulaires_en/055-18_en.pdf

2020, ranging from 165,820 to 275,318 outstanding contracts. However, starting in February 2020 until July 2020, month-end open interest increased substantially, ranging from 352,221 to 774,780 outstanding contracts. For these six months, the variation between 2019 and 2020 month-end open interest show variations from up 58% to 367%, as detailed in Table 1 below:

Table 1: *Share Futures Contracts (stocks and trust units) Month-end Open Interest since January 2019*[8]

Month	2019	2020	% of variation
January	204,751	245,601	+ 20%
February	186,800	557,951	+ 199%
March	211,022	472,050	+ 124%
April	199,165	369,670	+ 86%
May	165,820	774,780	+ 367%
June	175,047	739,780	+ 323%
July	223,226	352,221	+ 58%
August	181,721	-	-
September	261,376	-	-
October	275,318	-	-
November	234,446	-	-
December	182,061	-	-

Some investors have expressed an interest in increasing their use of Share Futures as part of their hedging strategy. However, considering the current maximum position allowed is 250,000 on those Share Futures[9] whose underlying interests are the most actively traded and capitalized listed stocks and trust units[10], these investors are obliged to file exemption requests each time they wish to hold a larger eligible position. As a result, they have indicated to the Division that they would favor a more flexible approach to position limits and exemption process.

In a recent proposed amendment to the Rules, the Bourse proposed to expand the scope of the automatic exemption on equity and ETF options for certain defined hedges by completely removing the position limits on hedged positions to allow potential holding of larger hedged positions which are unlikely to adversely

[8] https://www.m-x.ca/nego_donnees_mensuels_en.php

[9] Aggregated with the options on the same underlying interest

[10] For the Share Futures whose underlying interests are exchange-traded funds, the maximum positions allowed can be higher than 250,000 contracts under certain conditions.

affect the market.[11] In such cases, obtaining the approval of the Division (i.e. exemption request) is not required for a defined hedge permitted under the Rules.

Regardless, the monitoring of positions is part of the daily regulatory activities of the Division. If the positions held in an account exceed the permissible limit, it is to be expected that the Division will require the participant to provide, upon request and in a timely manner, evidence of a hedge.

For all these considerations, the Bourse proposes to include an approved exemption from statutory position limits for fully hedged positions on Share Futures Contracts, as detailed in Section II above (PROPOSED AMENDMENT) and in Appendix 1 .

d. Comparative analysis

The Bourse and the Division have conducted a comparative analysis of other major exchanges offering Share Futures Contracts (OneChicago, Eurex and Euronext) detailed in Table 2 below.

Table 2: *Benchmarking*

Exchange	Position Limits	Aggregation with options	Approved defined hedges	Exemption request process
Bourse	Yes	Yes	No	Yes
OneChicago	Yes	No (OneChicago lists only single-stock futures)	No	Yes
Eurex	Yes	Yes	No	No
Euronext	No	n/a	n/a	n/a

Since Euronext does not have position limits for Share Futures Contracts, no approved defined hedge nor exemption request process are required.

Although Eurex is the only other exchange with the Bourse to require the aggregation of options and Share Futures Contracts on a same underlying interest for the purpose of position reporting, its methodology to set position limits, which is based on the free float of the underlying stock[12] and is applicable only to long call option or long future positions[13], is materially different from the methodology adopted by the Bourse. The

[11] https://www.m-x.ca/f_circulaires_en/149-19_en.pdf (Section III c. 3.1 - Approved Defined Hedges)
[12] 097/04 - 22.07.04 - Position Limits – New Mode of Calculation as of August 2, 2004
[13] https://www.eurexchange.com/exchange-en/trading/position-limits

resulting position limit figures applied by the Bourse on the options and futures in equity derivatives with potential physical underlying delivery are much more conservative than the ones applied by Eurex, which justifies the Bourse to introduce an approved defined hedge.

OneChicago, which lists only single-stock futures, fixes its position limits based on CFTC Regulation 41.25[14] that is only applicable within 5 days of the contract's expiration. The highest position limit currently applied by OneChicago on any of its products is 1,000,000 contracts. Parties with positions that constitute a qualified hedge may file a position limit exemption and are not subject to position limits on these positions.[15] The Bourse, which applies a more conservative maximum position limit of 250,000 contracts on Share Futures whose underlying interests are the most traded and capitalized listed stocks and trust units, and requires its market participants to aggregate their Share Futures positions with their equity options positions, believes it is appropriate to introduce an approved defined hedge exemption to facilitate the holding of large positions.

In making the proposal, the Bourse and the Division have taken into consideration the publicly available methodologies and rationale related to position limits adopted by those exchanges and regulatory authorities.

e. Analysis of Impacts

i. Impacts on Market

The proposed amendments strike a balance between providing the market with an environment that does not hamper liquidity, yet prevents potential market abuse.

ii. Impacts on Technology

The proposed amendments will have no impact on the technological systems of the Bourse, its Participants or CDCC.

iii. Impacts on regulatory functions

The proposed amendments are initiated by the Division to address a prevailing change in the market interest for Share Futures Contract. This proposal will provide investors with an approved defined hedge to trade Share Futures Contracts within a more efficient framework under the continued oversight of the Division.

The monitoring of positions is part of the daily regulatory activities of the Division. The Division will monitor this approved defined hedge in the same manner it does for defined approved exemptions currently available under the Rules of the Bourse. Accordingly, the Division expects Participants to provide, upon request, evidence of any hedge in a timely manner.

iv. Impacts on clearing functions & on trading functions

The proposed amendments will have no impact on the trading and clearing functions.

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[14] https://docs.onechicago.com/display/PD/Position+Limits

[15] POSITION LIMIT EXEMPTION REQUEST

v. Public Interest

The Bourse and the Division consider these amendments to be aligned with the endeavour to counter market abuse and manipulation, fraud and deceptive trading, and to foster fair and orderly markets. As such, the proposed amendments are not considered to have an impact on public interest.

IV. PROCESS

The proposed amendments are subject to the Special Committee and the Rules and Policies Committee of the Bourse for approval purposes. They will also be submitted to the Autorité des marchés financiers in accordance with the self-certification procedure and to the Ontario Securities Commission for information.

V. ATTACHED DOCUMENTS

Annex 1 - Proposed amendments.

ANNEX 1 - PROPOSED AMENDMENTS

AMENDED VERSION

PART 6 - TRADING RULES

Chapter D—Listed Products

Article 6.309A Position Limits for Options and Share Futures Contracts

(a) Except otherwise indicated, the applicable position limits for Options, Share Futures Contracts or aggregated Options and Share Futures Contracts (as defined under paragraph b) iii)) are as follows:

(i) Share Futures Contracts, aggregated Options and Share Futures Contracts positions as well as Options on stocks, exchange-traded funds or trust units

(1) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs a)(i)2) and a)(i)3) of the present Article;

(2) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or 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;

(3) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume of transactions 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;

(4) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume of transactions 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;

(5) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 100 million shares or units of the Underlying Interest or the most recent interlisted six month trading volume of transactions 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;

(6) for contracts where the underlying security is an equity holding exchange-traded fund, defined as an exchange-traded fund where one of the main investment objectives is to hold, directly or indirectly only exchange-traded stocks or trust units, the position limits are the following:

(A) for contracts for which the Underlying Interest is a narrow-based exchange-traded fund, the position limits shall be equal to twice the limit levels provided for under paragraphs a)(i)(1) to (5) above;

(B) for contracts for which the Underlying Interest is a broad-based exchange-traded fund, the position limits shall be equal to three times the limit levels provided for under paragraphs a)(i)(1) to (5) above; or

(C) for contracts for which the Underlying Interest is a broad-based exchange-traded fund that has assets under management of at least 4 billion dollars and outstanding units in circulation of at least 100 million units, the position limits shall be equal to four times the limit levels provided for under paragraphs a)(i)(1) to (5) above.

(ii) Broad-based index Options

There are no position limits on broad-based index Options.

(iii) Narrow-based index Options

40,000 contracts.

(iv) 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.

(v) 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.

(b) For the purposes of this article:

(i) Calls written, Puts held, a net short Share Futures position, and short Underlying Interest are on the same side of the market and Puts written, Calls held, a net long Share Futures position, and long Underlying Interest are on the same side of the market;

(ii) 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;

(iii) the "aggregated Options and Share Futures Contracts position" is obtained by first netting Share Futures Contracts positions relating to the same Underlying Interest and subsequently adding the net Futures Contracts position (net long or net short) to Options positions relating to the same Underlying Interest on a per side basis (whether long or short) to determine the aggregate per side quantity held; one Option Contract being equal to one Share Futures Contract for purposes of this calculation;

(iv) the "interlisted trading volume of transactions" includes trading volumes of transactions on the Underlying Interest on all Canadian and United States marketplaces as long as the Underlying Interest is the same.

(c) For the purposes of Articles 6.309A and 6.309B:

(i) a "narrow-based exchange-traded fund" is an equity exchange-traded fund that meets one of the following four requirements (1) it has nine or fewer components; (2) one component comprises more than 30 percent of the fund's composition; (3) the five highest weighted components comprise more than 60 percent of the fund's composition, or (4) the lowest weighted components comprising in the aggregate 25 percent of the fund's composition have an aggregate dollar value of average daily volume over a six-month period of less than US$50 million dollars (US$30 million dollars if there are at least 15 component securities);

(ii) a "broad-based exchange-traded fund" is an equity exchange-traded fund that is not a narrow-based exchange-traded fund.

(iii) a "narrow-based index" is an equity index that meets one of the following four requirements: (1) it has nine or fewer components; (2) one component comprises more than 30 percent of the index weighting; (3) the five highest weighted components comprise more than 60 percent of the index weighting, or (4) the lowest weighted components comprising in the aggregate 25 percent of the index's weighting have an aggregate dollar value of average daily volume over a six-month period of less than US$50 million dollars (US$30 million dollars if there are at least 15 component securities);

(iv) a "broad-based index" is an equity index that is not a narrow-based index.

(d) Hedges exemptions

(i) In addition to the applicable position limits established under paragraph (a)(i), the following hedging Transactions and positions are allowed. The hedging Transactions and positions described in paragraphs (1) through (5) below shall be exempt from established position limits as prescribed under paragraph (a)(i). Hedge Transactions and positions established pursuant to paragraphs (6) through (8) below are subject to a position limit equal to five (5) times the position limits established under subparagraph (a)(i) above:

(1) where each Option Contract is hedged or covered by 100 shares of the underlying Security or by Securities convertible into 100 shares of the underlying Security, or, in the case of an adjusted Option Contract, the same number of shares represented by the adjusted contract: (a) Long Position on a Call and a Short Position on the underlying Security; (b) Short Position on a Call and a Long Position on the underlying Security; (c) Long Position on a Put and a Long Position on the underlying Security; or (d) Short Position on a Put and a Short Position on the underlying Security.

(2) Reverse Conversion — A Long Position on a Call accompanied by a Short Position on a Put, where both positions have the same expiry and Exercise Price, and where either of the positions is hedged with 100 shares (or an adjusted number of shares) of the underlying Security or Securities convertible into such underlying Security.

(3) Conversion — A Short Position on a Call accompanied by a Long Position on a Put, where both positions have the same expiry and Exercise Price, and where either of the positions is hedged with 100 shares (or an adjusted number of shares) of the underlying Security or Securities convertible into such underlying Security.

(4) Collar - A Short Position on a Call accompanied by a Long Position on a Put, where both positions have the same expiry and the Exercise Price of the Short Position on a Call equals or exceeds the Long Position on a Put, and where either of the positions is hedged with 100 shares (or other adjusted number of shares) of the underlying Security. Neither of the Short Position on a Call and Long Position on a Put can be In-the-money at the time the position is established.

(5) Reverse Collar - A Long Position on a Call accompanied by a Short Position on a Put, where both positions have the same expiry and the Exercise Price of the Long Position on a Call equals or exceeds the Short Position on a Put, and where either of the positions is hedged with 100 shares (or other adjusted number of shares) of the underlying Security. Neither of the Long Position on a Call and Short Position on a Put can be In-the-money at the time the position is established.

(6) Box spread - A Long Position on a Call accompanied by a Short Position on a Put with the same Exercise Price and a Short Position on a Call accompanied by a Long Position on a Put with a different Exercise Price.

(7) Back-to-back options - A listed Option position hedged on a one-for-one basis with an OTC Option position on the same underlying Security. The Exercise Price of the listed Option position and corresponding OTC Option position must be within one Exercise Price of each other and no more than one expiration month apart.

(8) For those strategies described in Sections (2) through (5) above, one component of the Option strategy can be an OTC Option Contract.

(ii) For purposes of paragraph (d)(i) above, an OTC Option Contract is defined as an OTC Option Contract cleared by CDCC or where the counterparty is an Acceptable Institution as defined by the Investment Industry Regulatory Organization of Canada (IIROC).

(iii) In addition to the applicable position limits established under paragraph (a)(i), shall be exempt from established position limits as prescribed under such paragraph, the hedging Transactions and positions where each Share Futures Contract is hedged or covered by 100 shares of the underlying Security or by Securities convertible into 100 shares of the underlying Security or, in the case of an adjusted Share Futures Contract, the same number of shares represented by the adjusted contract: (a) Long Position on a Share Futures Contract and a Short Position on the underlying Security; or (b) Short Position on a Share Futures Contract and a Long Position on the underlying Security.

<u>CLEAN VERSION</u>

PART 6 - TRADING RULES

Chapter D—Listed Products

Article 6.309A Position Limits for Options and Share Futures Contracts

(a) Except otherwise indicated, the applicable position limits for Options, Share Futures Contracts or aggregated Options and Share Futures Contracts (as defined under paragraph b) iii)) are as follows:

(i) Share Futures Contracts, aggregated Options and Share Futures Contracts positions as well as Options on stocks, exchange-traded funds or trust units

(1) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs a)(i)2) and a)(i)3) of the present Article;

(2) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or 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;

(3) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume of transactions 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;

(4) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume of transactions 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;

(5) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 100 million shares or units of the Underlying Interest or the most recent interlisted six month trading volume of transactions 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;

(6) for contracts where the underlying security is an equity holding exchange-traded fund, defined as an exchange-traded fund where one of the main investment objectives is to hold, directly or indirectly only exchange-traded stocks or trust units, the position limits are the following:

(D) for contracts for which the Underlying Interest is a narrow-based exchange-traded fund, the position limits shall be equal to twice the limit levels provided for under paragraphs a)(i)(1) to (5) above;

(E) for contracts for which the Underlying Interest is a broad-based exchange-traded fund, the position limits shall be equal to three times the limit levels provided for under paragraphs a)(i)(1) to (5) above; or

(F) for contracts for which the Underlying Interest is a broad-based exchange-traded fund that has assets under management of at least 4 billion dollars and outstanding units in circulation of at least 100 million units, the position limits shall be equal to four times the limit levels provided for under paragraphs a)(i)(1) to (5) above.

(ii) Broad-based index Options

There are no position limits on broad-based index Options.

(iii) Narrow-based index Options

40,000 contracts.

(iv) 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.

(v) 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.

(b) For the purposes of this article:

(i) Calls written, Puts held, a net short Share Futures position, and short Underlying Interest are on the same side of the market and Puts written, Calls held, a net long Share Futures position, and long Underlying Interest are on the same side of the market;

(ii) 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;

(iii) the “aggregated Options and Share Futures Contracts position” is obtained by first netting Share Futures Contracts positions relating to the same Underlying Interest and subsequently adding the net Futures Contracts position (net long or net short) to Options positions relating to the same Underlying Interest on a per side basis (whether long or short) to determine the aggregate per side quantity held; one Option Contract being equal to one Share Futures Contract for purposes of this calculation;

(iv) the “interlisted trading volume of transactions” includes trading volumes of transactions on the Underlying Interest on all Canadian and United States marketplaces as long as the Underlying Interest is the same.

(c) For the purposes of Articles 6.309A and 6.309B:

(i) a “narrow-based exchange-traded fund” is an equity exchange-traded fund that meets one of the following four requirements (1) it has nine or fewer components; (2) one component comprises more than 30 percent of the fund’s composition; (3) the five highest weighted components comprise more than 60 percent of the fund’s composition, or (4) the lowest weighted components comprising in the aggregate 25 percent of the fund’s composition have an aggregate dollar value of average daily volume over a six-month period of less than US$50 million dollars (US$30 million dollars if there are at least 15 component securities);

(ii) a "broad-based exchange-traded fund" is an equity exchange-traded fund that is not a narrow-based exchange-traded fund.

(iii) a "narrow-based index" is an equity index that meets one of the following four requirements: (1) it has nine or fewer components; (2) one component comprises more than 30 percent of the index weighting; (3) the five highest weighted components comprise more than 60 percent of the index weighting, or (4) the lowest weighted components comprising in the aggregate 25 percent of the index's weighting have an aggregate dollar value of average daily volume over a six-month period of less than US$50 million dollars (US$30 million dollars if there are at least 15 component securities);

(iv) a "broad-based index" is an equity index that is not a narrow-based index.

(d) Hedges exemptions

(i) In addition to the applicable position limits established under paragraph (a)(i), the following hedging Transactions and positions are allowed. The hedging Transactions and positions described in paragraphs (1) through (5) below shall be exempt from established position limits as prescribed under paragraph (a)(i). Hedge Transactions and positions established pursuant to paragraphs (6) through (8) below are subject to a position limit equal to five (5) times the position limits established under subparagraph (a)(i) above:

(1) where each Option Contract is hedged or covered by 100 shares of the underlying Security or by Securities convertible into 100 shares of the underlying Security, or, in the case of an adjusted Option Contract, the same number of shares represented by the adjusted contract: (a) Long Position on a Call and a Short Position on the underlying Security; (b) Short Position on a Call and a Long Position on the underlying Security; (c) Long Position on a Put and a Long Position on the underlying Security; or (d) Short Position on a Put and a Short Position on the underlying Security.

(2) Reverse Conversion — A Long Position on a Call accompanied by a Short Position on a Put, where both positions have the same expiry and Exercise Price, and

where either of the positions is hedged with 100 shares (or an adjusted number of shares) of the underlying Security or Securities convertible into such underlying Security.

(3) Conversion — A Short Position on a Call accompanied by a Long Position on a Put, where both positions have the same expiry and Exercise Price, and where either of the positions is hedged with 100 shares (or an adjusted number of shares) of the underlying Security or Securities convertible into such underlying Security.

(4) Collar - A Short Position on a Call accompanied by a Long Position on a Put, where both positions have the same expiry and the Exercise Price of the Short Position on a Call equals or exceeds the Long Position on a Put, and where either of the positions is hedged with 100 shares (or other adjusted number of shares) of the underlying Security. Neither of the Short Position on a Call and Long Position on a Put can be In-the-money at the time the position is established.

(5) Reverse Collar - A Long Position on a Call accompanied by a Short Position on a Put, where both positions have the same expiry and the Exercise Price of the Long Position on a Call equals or exceeds the Short Position on a Put, and where either of the positions is hedged with 100 shares (or other adjusted number of shares) of the underlying Security. Neither of the Long Position on a Call and Short Position on a Put can be In-the-money at the time the position is established.

(6) Box spread - A Long Position on a Call accompanied by a Short Position on a Put with the same Exercise Price and a Short Position on a Call accompanied by a Long Position on a Put with a different Exercise Price.

(7) Back-to-back options - A listed Option position hedged on a one-for-one basis with an OTC Option position on the same underlying Security. The Exercise Price of the listed Option position and corresponding OTC Option position must be within one Exercise Price of each other and no more than one expiration month apart.

(8) For those strategies described in Sections (2) through (5) above, one component of the Option strategy can be an OTC Option Contract.

(ii) For purposes of paragraph (d)(i) above, an OTC Option Contract is defined as an OTC Option Contract cleared by CDCC or where the counterparty is an Acceptable Institution as defined by the Investment Industry Regulatory Organization of Canada (IIROC).

(iii) In addition to the applicable position limits established under paragraph (a)(i), shall be exempt from established position limits as prescribed under such paragraph, the hedging Transactions and positions where each Share Futures Contract is hedged or covered by 100 shares of the underlying Security or by Securities convertible into 100 shares of the underlying Security or, in the case of an adjusted Share Futures Contract, the same number of shares represented by the adjusted contract: (a) Long Position on a Share Futures Contract and a Short Position on the underlying Security; or (b) Short Position on a Share Futures Contract and a Long Position on the underlying Security.