CIRCULAR 166-25
December 11, 2025

REQUEST FOR COMMENTS

PROPOSED AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. REGARDING POSITION LIMITS FOR OPTIONS AND SHARE FUTURES CONTRACTS

The President and CEO of Bourse de Montréal Inc. (the “Bourse”) and the Self-Regulatory Oversight Committee of the Bourse (“SROC”) approved amendments to the Rules of the Bourse (the “Rules”) to modify the position limits applicable to Options on Equity Securities, exchange-traded funds or trust units, and Share Futures Contracts.

Comments on the proposed amendments must be submitted at the latest on **January 26, 2026**. 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:

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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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 Regulatory Division of 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 by the Autorité. The Regulatory Division of the Bourse is responsible for the regulatory functions of the Bourse and carries on its activities as an independent unit separate from the other activities of the Bourse. The activities of the Regulatory Division of the Bourse are performed under the oversight of the SROC which is composed of members of the Board of Directors of the Bourse.

New Rules or amendments to the Rules pertaining to market integrity are vested with the Regulatory Division of the Bourse. Such proposals are presented to the Advisory Committee on Self-Regulation for recommendations before being submitted for SROC's approval. They are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

PROPOSED AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC.
REGARDING POSITION LIMITS FOR OPTIONS AND SHARE FUTURES CONTRACTS

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I. DESCRIPTION

The Bourse de Montréal Inc. (the “Bourse”) and the Regulatory Division (the “Division”) are proposing amendments to the Rules of the Bourse (the “Rules”) to modify the position limits applicable to Options on Equity Securities, exchange-traded funds (“ETF”) or trust units, and Share Futures Contracts.

II. OUTLINE OF THE PROPOSED AMENDMENTS

The proposed amendments to Article 6.309A of the Rules relating to Position Limits for Options and Share Futures Contracts (the “Proposed Amendments”) are as follows:

(a) Add a delta-based hedge exemption to the existing hedge exemptions prescribed in the Rules and a notification requirement for the hedge exemptions;

(b) Add a position limit threshold of 500,000 contracts;

(c) Modify the methodology applied to set position limits for contracts where the underlying security is an ETF (other than a leveraged ETF), in order to:

i. Extend the multiplier of two times the position limit levels to Options and Futures Contracts on a non-equity ETFs;

ii. Modify the asset under management and outstanding units criteria for the multiplier of four times the position limit levels and extend the multiplier to Options and Futures Contracts on any types of ETFs;

iii. Add a multiplier of eight times the position limit levels for Options and Futures Contracts on any type of ETFs where the assets under management and outstanding units criteria required are higher than the criteria specified for other multipliers.

The detailed Proposed Amendments are attached as follows :

- Appendix A - Blackline version of the amendments
- Appendix B - Clean version of the amendments

III. BACKGROUND

The Bourse seeks to maintain a fair and orderly market, mindful of public interest, and the Division is responsible for measures aimed at countering market abuse and manipulation, fraud and deceptive trading[1]. Such measures include position limits. The limits should be

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

established at appropriate levels to prevent accumulation of large positions that could lead to market disruption through undue control or potential manipulation, but they should also be calibrated to foster market efficiency, through liquidity and price discovery, by encouraging legitimate trading activities and the holding of legitimate large positions on a listed market.

In 2013, the Bourse made changes to position limits applicable to equity options, and to options on ETFs and income trusts by increasing the levels from a range of 13,500 to 75,000 contracts to a range of 25,000 to 250,000 contracts[2]. The position limits levels for physically-settled options on equity-holding ETFs[3] were doubled in 2017 as a temporary solution to constraints identified resulting from the methodology used to set position limits. When Share Futures were introduced in 2016[4], the possibility for a participant to take positions in both options and futures contracts on the same underlying equities was considered when reviewing the potential concentration risk in the underlying securities of the Bourse's products. Given that a Share Future and an Option can be based on the same underlying, are both physically deliverable, and are the subject of a finite underlying float, it is therefore important to consider them on an aggregate basis since a combination of the aforementioned may result in unwanted concentration. Consequently, the Bourse considered that options and futures contracts on the same underlying equity are similar products from a functional and exposure point of view. In such a context, position limits apply to the two types of derivatives instruments on an aggregate basis.

In 2019, the Bourse conducted a review of the methodology to set position limits for all of the listed products, which resulted in several amendments to the Rules.[5] The amendments addressing position limits on Options and Share Futures Contracts became effective on June 2021[6], and included the introduction of additional hedge exemptions and position limit multipliers for options on equity-holding ETFs.

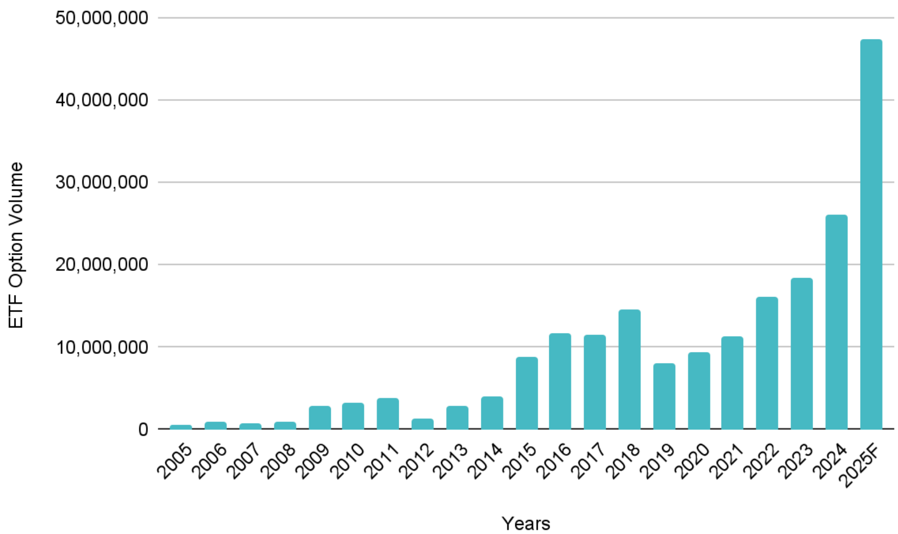
The Bourse and the Division recognize that the methodology to set position limits must be reviewed periodically to reflect changing internal and external factors such as market evolution, product-specific trading activities and global practices on other markets.

The listed options market has undergone significant changes in recent years. Figures 1 to 4 illustrate a substantial increase in trading volume and open interest for options on equity securities and ETFs over the past two decades.

[2] CIRCULAR 070-13 April 11, 2013
[3] CIRCULAR 175-17 December 12, 2017
[4] CIRCULAR 148-16 November 23, 2016
[5] CIRCULAR 149-19 November 21, 2019
[6] CIRCULAR 021-21 February 2, 2021

Figure 1

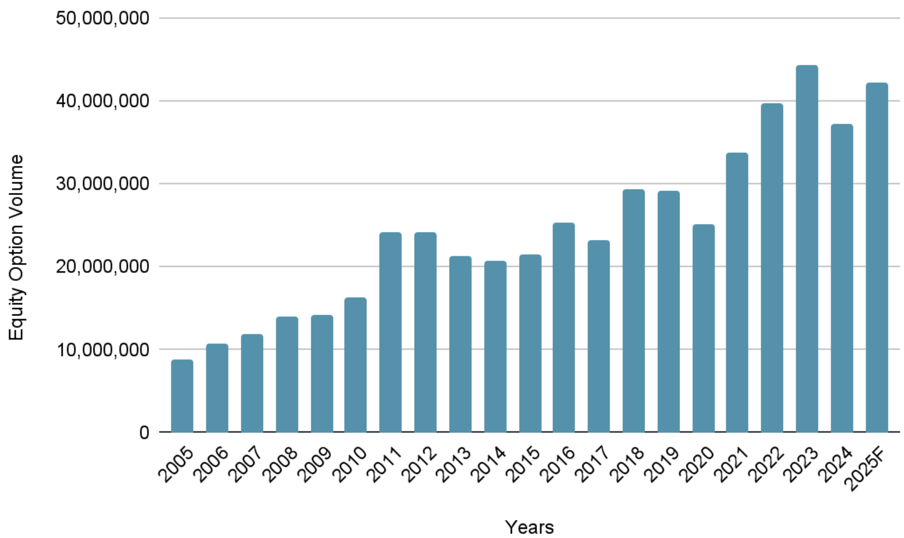
Bourse ETF Option Volume



Note: This chart shows near exponential growth in ETF option volume. After years of very low activity, volumes began a steep climb in 2022 as investors demand for an efficient and simple hedging tool rose. This trend is forecasted to accelerate substantially as volumes have nearly doubled between 2023 and 2025, showing how this product segment is rapidly gaining popularity. 2025F volume represents a projection based on year-to-date data as of September 30, 2025.

Figure 2

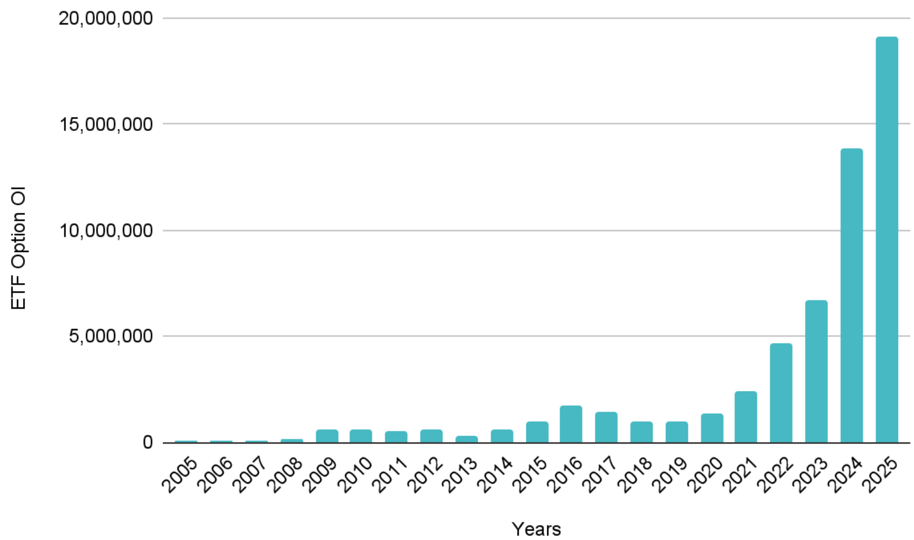
Bourse Equity Option Volume



Note: This chart is illustrating a much more mature market, following a peak in 2023 and a drawback in 2024, markets are recovering and the popularity for single stock options is growing. The Canadian equity options market remains resilient and a cornerstone of the derivatives landscape, as over the last 20 years volumes have nearly quintupled. This is a substantial rise as options have evolved into a mainstream tool for managing risk and signaling market views. 2025F volume represents a projection based on year-to-date data as of September 30, 2025.

Figure 3

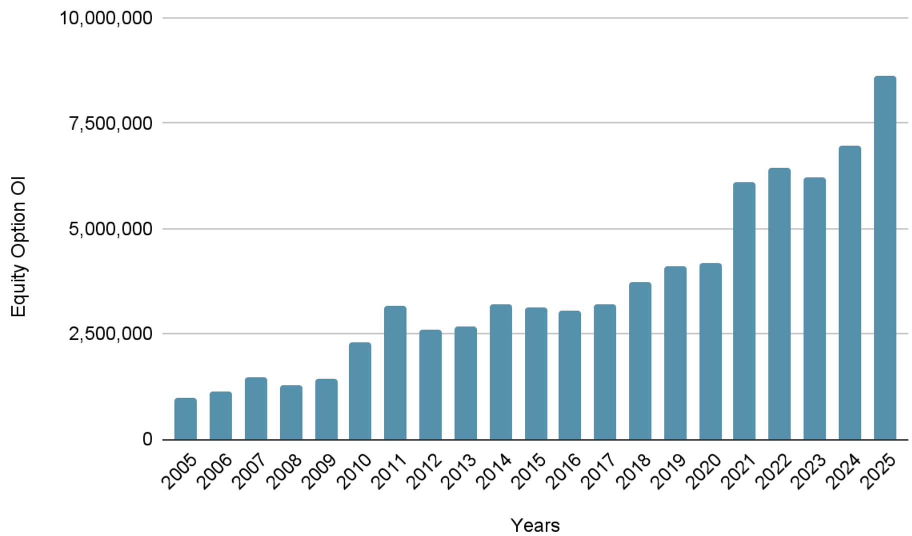
Bourse ETF Option Open Interest



Note: The significant growth in ETF options open interest shows how investors are rapidly building significant long-term positions in the product, rather than simply trading them. This number was negligible for years before growing rapidly in 2022, indicating that new money is flowing into the space and investors are holding these positions for portfolio management and long term hedging. Yearly open interest data are as of December 31, except for the 2025 data that is as of September 30, 2025.

Figure 4

Bourse Equity Option Open Interest



Note: The steady two-decade climb in equity option open interest to new all time highs shows a deep commitment to single stock strategies. This, in parallel with the growth in ETF options, shows us a healthy and expanding derivatives market with growing participation in all segments. Yearly open interest data are as of December 31 except for the 2025 data that is as of September 30, 2025.

IV. RATIONALES FOR THE AMENDMENTS AND APPROACH

a. Objectives

The first Proposed Amendment is the introduction of a delta-based hedge exemption ("Delta Hedge Exemption") under paragraph (d) of Article 6.309A of the Rules. This amendment provides market participants with the ability to hold larger positions in listed products, provided the positions are "delta-hedged" based on a Bourse`s defined methodology. The primary reasoning behind hedge exemptions is that legitimate risk managed positions are unlikely to have an adverse effect on the market. Position limits that are too low can inadvertently have an adverse effect on the market by preventing liquidity providers from taking the necessary positions to hedge their options exposure, forcing them to stop providing liquidity or to unwind their hedges, thereby exposing them to significant risk. The exemption ensures that position limits do not inhibit crucial, legitimate risk management practices. This change also aligns Canadian market practice with US market standards, where an exemption based on delta-hedging has existed since 2008. Furthermore, in considering applications for exemptions from published position limits under Article 6.311 of the Rules (Policy C-1) and in monitoring compliance with the exemption, the Division currently considers a delta-hedging calculation as part of its assessment.

With the introduction of the Delta Hedge Exemption, the Division also proposes to introduce a notification process to govern communication between an Approved Participant and the Division, and establish clear expectations whenever a hedge exemption provided under the Rules is relied upon. In monitoring compliance with position limits, Approved Participants will have to notify the Division and provide the necessary information in support of the applicable hedge exemption.

Not all market participants, including liquidity providers, manage their options exposure through delta hedging. For example, some market participants use a correlation matrix to assess their overall delta risk. This approach to risk measurement and such hedging concepts may not qualify under the hedging exemptions provided under the Rules or the proposed Delta Hedge Exemption. Therefore, in addition to the Delta Hedge Exemption, the Bourse also proposes to modify the current position limits thresholds for Options on equity securities, ETFs and trust units, and Share Futures Contracts, as well as the multipliers for contracts with ETFs underlying to reflect the state of the Canadian option market. To that end, the second Proposed Amendment to Article 6.309A of the Rules is to introduce a new 500,000-contract position limit, thereby doubling the current maximum cap of 250,000 contracts.

This change is based on the need to reduce market frictions and promote transparency. The current cap creates operational difficulties for institutional market participants, often compelling them to move their trading to the over-the-counter (OTC) markets as mentioned above. By raising the limit, the Bourse seeks to enable its listed options markets to compete more effectively and promote public price discovery. This change is supported by data showing substantial growth in options activity, as of October 31, 2025, with Equity Securities Options Open Interest rising 243%, 111% and 51% since year-ends of 2013, 2019 and 2021 respectively and ETF Options Open Interest surging 6,484%, 1,886% and 751% since year-ends 2013, 2019 and 2021 respectively.

To qualify for the new 500,000-contract threshold, the underlying security must have a defined trading volume which is five times the volume required for the 250,000-contracts threshold. It is worth noting that out of the 318 option classes listed on the Bourse as of October 20, 2025, the majority (173) already qualify for the 250,000 contract position limit. This highlights both how much the market has evolved in recent decades and acts as an indicator that the current threshold levels in the Rules may require review. With a new 500,000-contract threshold in place, 50 option classes (four with underlying ETFs and 46 other underlying Equity Securities) would be impacted and reach the 500,000 contracts position limit tier, as detailed in Figure 5 below:

Figure 5

Option classes eligible for 500,000-contract threshold[7]

Listed product symbol	Volume	Outstanding shares	Current position limit	Proposed position limit
ABX	1,549,155,443	1,705,993,790	250,000	500,000
AC	700,956,262	296,202,861	250,000	500,000
AG	942,488,950	490,028,835	250,000	500,000
AQN	816,357,365	768,025,001	250,000	500,000
ARX	542,137,166	581,445,460	250,000	500,000
ATH	568,735,714	492,380,591	250,000	500,000
BB	788,414,202	590,361,084	250,000	500,000
BCE	1,031,384,656	932,525,817	250,000	500,000
BITF	5,398,826,455	562,291,960	250,000	500,000
BLDP	1,271,425,429	300,577,740	250,000	500,000
BN	713,444,377	1,649,279,784	250,000	500,000
BNS	1,012,316,353	1,240,661,897	250,000	500,000
BTE	2,232,882,019	768,317,006	250,000	500,000
BTO	1,842,781,475	1,322,980,844	250,000	500,000
CM	644,298,036	929,487,188	250,000	500,000
CNQ	2,924,877,495	2,087,041,732	250,000	500,000
CS	721,590,135	762,310,135	250,000	500,000
CVE	2,386,257,056	1,787,331,084	250,000	500,000
EDR	675,043,833	290,171,225	250,000	500,000
EFR	662,554,248	230,674,913	250,000	500,000
ENB	1,527,068,198	2,180,817,671	250,000	500,000
EQX	1,038,572,269	782,956,284	250,000	500,000
FVI	604,885,836	306,959,986	250,000	500,000
GLXY	1,108,529,847	380,818,243	250,000	500,000
HBM	703,107,434	395,679,988	250,000	500,000

[7] Figures based on position limits published by the Division on October 20, 2025 in Annex 1 of Circular 133-25

Listed product symbol	Volume	Outstanding shares	Current position limit	Proposed position limit
HND	756,593,640	9,304,756	250,000	500,000
HUT	1,266,262,425	105,564,832	250,000	500,000
IMG	928,698,931	575,141,210	250,000	500,000
IVN	942,898,675	1,353,937,440	250,000	500,000
K	1,313,320,099	1,285,560,795	250,000	500,000
LAC	532,425,089	242,512,585	250,000	500,000
LUN	630,250,464	856,468,476	250,000	500,000
MFC	1,381,398,681	1,694,496,516	250,000	500,000
NXE	788,492,308	569,668,514	250,000	500,000
PPL	705,359,312	580,932,000	250,000	500,000
RY	743,418,394	1,404,990,158	250,000	500,000
SHOP	1,818,957,949	1,299,660,749	250,000	500,000
SSRM	509,423,031	202,784,259	250,000	500,000
SU	1,533,124,812	1,213,246,632	250,000	500,000
T	1,114,253,121	1,535,124,513	250,000	500,000
TD	1,261,760,272	1,700,822,179	250,000	500,000
TECK	549,559,463	481,300,000	250,000	500,000
TLRY	6,775,197,872	1,109,519,118	250,000	500,000
TRP	1,104,167,834	1,040,000,000	250,000	500,000
TVE	554,484,269	496,578,204	250,000	500,000
WCP	1,655,102,896	1,213,642,642	250,000	500,000
WEED	2,776,718,206	338,252,083	250,000	500,000
XEG	704,067,566	73,000,000	500,000	2,000,000
XIU	1,280,157,547	412,900,000	1,000,000	4,000,000
ZEB	861,747,977	84,034,950	500,000	2,000,000

The third part of the Proposed Amendments involves adjustments to the multipliers applicable to contracts with ETFs underlying. This proposal is threefold.

First, extending the multiplier of two times the position limits, currently restricted to contracts on narrow-based equity ETFs, to apply to contracts on non-equity-based ETFs (such as commodity-based funds). The change is based on the fact that the creation and redemption processes as well as the arbitrage function are similar to those of equity-based ETFs.[8] Also, including non-equity-based ETFs would align the Bourse with global practices, as it appears that no other exchanges segregate non-equity-based ETFs when determining position limits on options.

Second, for the multiplier of four times the position limit levels, modifying the conditions by lowering the criteria required related to assets under management and outstanding units in circulation of the underlying interest, and by extending this multiplier to options on any types of ETFs (i.e., equity narrow-based and broad-based ETFs and non-equity ETFs). The revised criteria will allow more ETFs to qualify for a higher multiplier.

Third, creating a new multiplier of eight times the position limit levels for contracts on the largest ETFs based on their assets under management and outstanding units regardless of the composition of these ETFs. The highly restrictive criteria for the new multiplier recognize that these ETFs are part of a complex ecosystem that provides an even stronger dynamic for mitigating risk with extra liquidity coming from related products such as futures and options on indices.

Options on leveraged ETFs would not be eligible for the multipliers. Leveraged ETFs typically employ futures and forward contracts, total return swaps and other options to generate returns in a method known as "synthetic replication" (the flip side of "physical" replication, i.e., direct borrowing) and are usually meant for day-to-day trading. Their results over longer periods are often unpredictable and can significantly compound losses.

For both multipliers (four and eight times), the rationale is once again to acknowledge the reduced risk associated with these underlying ETFs, which is in part due to the creation and redemption processes as well as the arbitrage function. Larger ETFs typically have higher trading volumes and a broader investor base, contributing to greater market liquidity. Their size usually also reflects a more diversified underlying portfolio, inherently reducing risk.

Critically, even with these higher limits (potentially up to 4 million contracts), the total position limits for Options or Futures Contracts on ETFs would still remain lower than a position limits calculated using a methodology considered in the 2019 amendments[9], which involves looking at the individual stocks composing an ETF. The methodology used in the Proposed Amendment generates a more conservative approach.

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[8] The creation, redemption and arbitrage of ETF units processes are described in the Bourse's Circular 037-17 and Circular 149-19

[9] This methodology was described and illustrated in Circular 149-19.

The Options on ETFs that would qualify under the proposed four and eight times multipliers are detailed in Figure 6 below:

Figure 6 Options on ETFs with four and eight times multipliers

Listed Product Symbol	Name Underlying Instrument	Underlying Symbol	Volume	Outstanding Shares	AUM	Position Limit	Multiplier	Final Position Limit	New Multiplier	Classes eligible for 500K threshold	New PL
BTCC	Purpose Bitcoin ETF CAD ETF Non-currency Hedged Units	BTCC.B	130,903,743	71,350,000	831,900,000	250,000	1	250,000	4	No	1,000,000
BTCX	CI Galaxy Bitcoin ETF	BTCX.B	71,200,882	60,228,000	1,840,000,000	75,000	1	75,000	4	No	300,000
PSLV	Sprott Physical Silver Trust	PSLV	369,063,544	563,349,061	11,070,000,000	250,000	1	250,000	4	No	**1,000,000**
U	Sprott Physical Uranium Trust	U.UN	15,437,253	283,370,000	5,830,000,000	50,000	1	50,000	4	No	200,000
VAB	Vanguard Canadian Aggregate Bond Index ETF	VAB	81,906,082	259,800,000	6,210,000,000	200,000	1	200,000	4	No	800,000
VFV	Vanguard S&P 500 Index ETF	VFV	100,147,631	159,950,000	26,710,000,000	250,000	2	500,000	4	No	**1,000,000**
VSB	Vanguard Canadian Short-Term Bond Index ETF	VSB	39,932,864	50,700,000	1,310,000,000	50,000	1	50,000	4	No	200,000
XBB	iShares Core Canadian Universe Bond Index ETF	XBB	150,561,211	299,100,000	8,690,000,000	250,000	1	250,000	4	No	**1,000,000**
XCB	iShares Canadian Corporate Bond Index ETF	XCB	51,123,283	121,000,000	2,500,000,000	75,000	1	75,000	4	No	300,000
XDV	iShares Canadian Select Dividend Index ETF	XDV	16,335,020	53,400,000	1,980,000,000	50,000	3	150,000	4	No	200,000

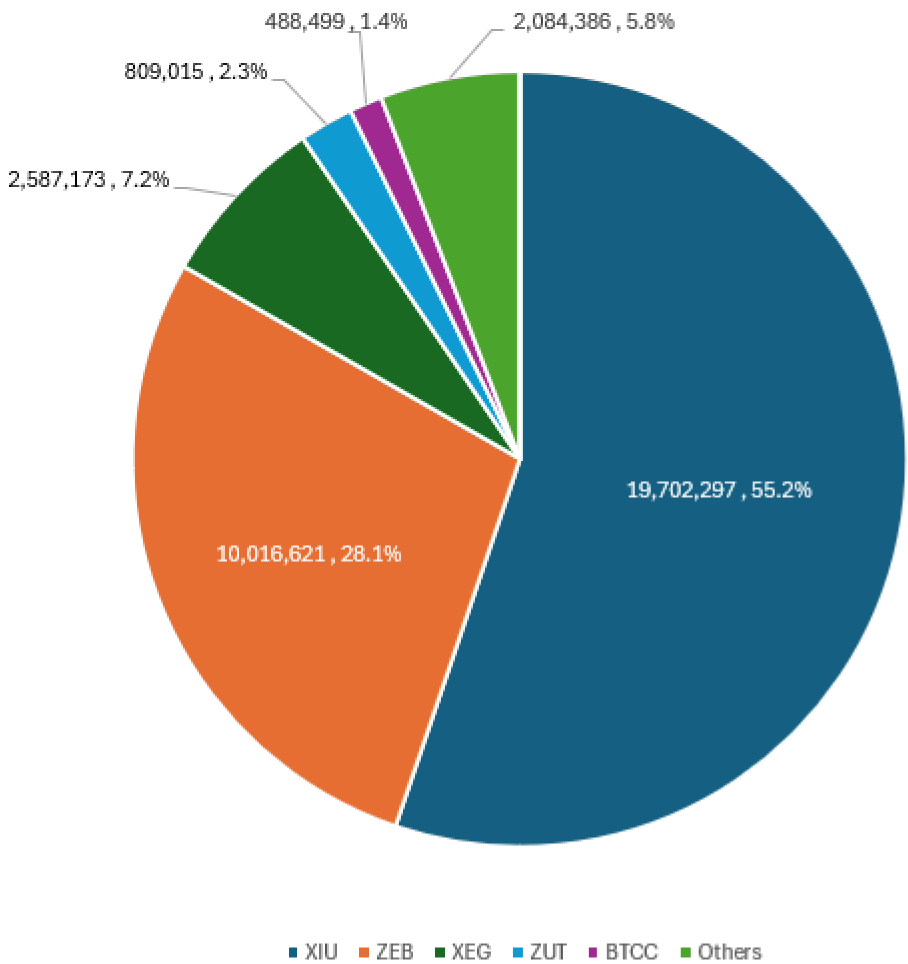
Listed Product Symbol	Name Underlying Instrument	Underlying Symbol	Volume	Outstanding Shares	AUM	Position Limit	Multiplier	Final Position Limit	New Multiplier	Classes eligible for 500K threshold	New PL
XEG	iShares S&P/TSX Capped Energy Index ETF	XEG	704,067,566	68,000,000	1,300,000,000	250,000	2	500,000	4	500000	**2,000,000**
XGD	iShares S&P/TSX Global Gold Index ETF	XGD	171,216,795	74,700,000	3,870,000,000	250,000	3	750,000	4	No	**1,000,000**
XIC	iShares Core S&P/TSX Capped Composite Index ETF	XIC	197,611,190	406,800,000	20,050,000,000	250,000	4	1,000,000	8	No	**2,000,000**
XIU	iShares S&P/TSX 60 Index ETF	XIU	1,280,157,547	412,900,000	18,250,000,000	250,000	4	1,000,000	8	500000	**4,000,000**
XRE	iShares S&P/TSX Capped REIT Index ETF	XRE	177,555,656	71,000,000	1,100,000,000	250,000	3	750,000	4	No	**1,000,000**
XSB	iShares Core Canadian Short Term Bond Index ETF	XSB	58,533,563	120,300,000	3,310,000,000	75,000	1	75,000	4	No	300,000
XSP	iShares Core S&P 500 Index ETF (CAD-Hedged)	XSP	160,461,272	193,825,000	13,460,000,000	250,000	2	500,000	4	No	**1,000,000**
ZAG	BMO Aggregate Bond Index ETF	ZAG	384,369,504	829,096,521	11,910,000,000	250,000	1	250,000	4	No	**1,000,000**
ZCN	BMO S&P/TSX Capped Composite Index ETF	ZCN	92,363,945	311,669,866	12,790,000,000	250,000	4	1,000,000	8	No	**2,000,000**
ZEB	BMO Equal Weight Banks Index ETF	ZEB	861,747,977	84,034,950	4,260,000,000	250,000	2	500,000	4	500000	**2,000,000**

Listed Product Symbol	Name Underlying Instrument	Underlying Symbol	Volume	Outstanding Shares	AUM	Position Limit	Multiplier	Final Position Limit	New Multiplier	Classes eligible for 500K threshold	New PL
ZHY	BMO High Yield US Corporate Bond Hedged to CAD Index ETF	ZHY	15,411,116	91,834,885	1,230,000,000	50,000	1	50,000	4	No	200,000
ZLB	BMO Low Volatility Canadian Equity ETF	ZLB	44,887,380	96,625,000	5,380,000,000	75,000	3	225,000	4	No	300,000
ZPR	BMO Laddered Preferred Share Index ETF	ZPR	53,116,992	122,407,079	1,450,000,000	75,000	1	75,000	4	No	300,000
ZSP	BMO S&P 500 Index ETF	ZSP	131,744,013	196,486,140	23,520,000,000	250,000	4	1,000,000	4	No	**1,000,000**

Note: Twenty-one ETFs would be eligible for the four times multiplier and three ETFs for the eight times multiplier. Despite this, Figure 7 underscores the significant concentration in the Canadian ETF option market, where most of the trading volume is driven by a small selection of ETFs, notably those qualifying for the new four and eight times multipliers.

Figure 7

Bourse 2025 YTD Top 5 ETF Option Symbols by Volume



Note: 2025 YTD as of September 30, 2025. XIU: Ishares S&P/TSX 60 index ETF, ZEB: BMO Equal Weight Banks Index ETF, XEG: Ishares S&P/TSX Capped Energy ETF, ZUT: BMO Equal Weight Utilities Index ETF, BTCC: Purpose Bitcoin ETF.

This chart shows an extreme concentration in Canadian ETF options, with the broad market index XIU and the banking sector ZEB taking up almost 83% of the top 5 volumes. This suggests that investors are using options to manage risk related to some core aspects of the economy. Bitcoin being a part of the top 5 indicates that cryptocurrency is cementing its place as a mainstream asset class.

b. Comparative Analysis

Major international derivatives markets propose different approaches to determine position limits as illustrated below and the publicly available information was taken into consideration.

The use of the delta metric is a common risk management measure, which is typically used in hedge strategies on derivatives. In the US, the exemption standard based on this delta hedging concept, was established by the CBOE (and subsequently adopted by virtually all US options exchanges, including NASDAQ, NYSE Arca, etc.) following a rule change in 2007 that became effective in 2008. These rules typically permit market makers and options specialists to carry positions in excess of the standard limits, provided the positions are delta-hedged.

The table below summarizes the position limits levels applied by some of the major international derivatives markets.

Exchange	**Region**	**General Approach to Position Limits**	**Equity Options**	**ETF Options**
US options exchanges[10]	North America	Five-tiered system based on liquidity of the underlying security's trading volume and public float.	25,000 to 250,000 contracts	25,000 to 250,000 contracts Fixed higher position limits on certain ETF options (see note below)

[10] FINRA Rule 2360(b)(3)(A)(iii)a.

Exchange	Region	General Approach to Position Limits	Equity Options	ETF Options
Eurex[11]	Europe	Position limits only apply to long call or long future positions in equity and ETF derivatives with potential physical underlying delivery.	25 percent of the free float of the underlying stock	Calculations take into account the existing fund assets based on the following schedule[12]: - Below EUR 1 billion = 100% of AuM. - Between EUR 1 billion and 4 billion = EUR 1 billion. - Above EUR 4 billion = 25% of AuM.
Australian Securities Exchange (ASX)[13]	Oceania	Maximum limit on the number of call options in a class is the number of options which, after performing calculations as defined in rules and procedures of ASX, gives a net market position of 10% of the total issued capital of the underlying product. No position limit on the number of put options.		
Hong Kong Exchanges and Clearing (HKEX)[14]	Asia	Five-tiered system based on the contract-equivalent number and calculated by	50,000 to 250,000 contracts	ETF options are not currently listed on the HKEX.

[11] Eurex - Position Limits

[12] More specifically, for ETFs with assets under management at or above EUR 4 billion, the percentage remains 25% of the fund units in circulation. For funds with assets under management at or below EUR 1 billion, the percentage is fixed at 100% of the fund units in circulation. For funds with assets under management between EUR 1 billion and EUR 4 billion, the percentage is adjusted proportionally between 100% and 25% of the fund units in circulation.

[13] ASX Operating Rules Procedures - Procedure 3400

[14] Operational Trading Procedures for Options - 5.9A Methodology for Setting the Position Limit

Exchange	Region	General Approach to Position Limits	Equity Options	ETF Options
		reference to the market capitalization and liquidity of the underlying stock relating to the particular stock options contract.		

Note: Faced with the same reality with respect to the growing use of ETFs in the last few years, US options exchanges have gradually increased position limits for some specific ETF options, adopting a fixed position limit higher than the limits obtained through their current methodology. For example, major, highly liquid ETFs are subject to significantly higher special position limits, as governed by exchange rules that are incorporated into FINRA Rulebook[15]:

- *SPDR S&P 500 ETF Trust (SPY): 3,600,000 contracts*
- *PowerShares QQQ Trust (QQQ): 1,800,000 contracts*
- *iShares Russell 2000 ETF (IWM): 1,000,000 contracts*
- *VanEck Vectors Gold Miners ETF (GDX) and Financial Select Sector SPDR Fund (XLF): 500,000 contracts*

V. ANALYSIS OF IMPACTS

a. Impacts on Market

The Proposed Amendments are expected to enhance market efficiency by minimizing constraints while ensuring that the integrity of the market remains safeguarded. By introducing a position limit threshold of 500,000 contracts, modifying the multipliers for contracts on ETFs and introducing the Delta Hedge Exemption, the Bourse will incentivize large institutions to move volume from the less transparent OTC market back to the exchange market, which is expected to improve public price discovery and market transparency. With these Proposed Amendments, liquidity providers, which include market makers as well as dealers, will likely be incited to provide continuous liquidity. Approved Participants will have to adapt their supervision and controls, and update policies and procedures to rely on the Proposed Amendments, specifically when relying on the hedge exemptions.

[15] FINRA Rule 2360(b)(3)(A)(iii)a.6.

b. Impacts on Technology

The Proposed Amendments have no material impact on the technological systems of the Bourse.

c. Impacts on Regulatory Functions

The Proposed Amendments will have a limited impact on the regulatory functions of the Division. The process to establish and publish position limits will have to be updated to factor in the new threshold levels and multipliers. The surveillance system feed, database, and parameters will have to be updated or reconfigured to account for the new position limits. A procedure will have to be established for monitoring Delta Hedging Exemptions and to handle the notifications Approved Participants may send when relying on a hedge exemption. Other corresponding procedures will have to be revised as well, in order to accommodate the Proposed Amendments.

d. Impacts on Clearing Functions

The Proposed Amendments have no impact on the Canadian Derivatives Clearing Corporation's (CDCC) clearing functions.

e. Public Interest

The Bourse and the Division consider that it is in the public interest to counter market abuse and manipulation, fraud and deceptive trading, and to foster fair and orderly markets. As such, the Proposed Amendments are consistent with the Bourse's public interest mandate.

APPENDIX A—BLACKLINED VERSION OF THE AMENDMENTS

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 sub-paragraph (b) (iii)~~)~~, are as follows:

(i) Share Futures Contracts, aggregated Options and Share Futures Contracts positions as well as Options on Equity Securities, 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;

[...]

(6) 500,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying Equity Security, exchange-traded fund or trust units totals at least 500 million shares or units of the Underlying Interest or the most recent interlisted six month trading volume totals at least 375 million shares or units of the Underlying Interest and at least 3 billion shares or units of this Underlying Interest are currently outstanding;

(~~6~~7) for contracts where the underlying security is an ~~equity holding~~ exchange-traded fund, excluding a leveraged 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 or a non-equity exchange-traded fund, the position limits shall be equal to twice the limit levels provided for under sub-paragraphs (a)(i)(1) to (~~5~~6) 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 sub-paragraphs (a)(i)(1) to (~~5~~6) above; ~~or~~

(C) for contracts for which the Underlying Interest is ~~a broad-based~~ an exchange-traded fund that has assets under management of at least $~~4~~1 billion and outstanding units in circulation of at least ~~100~~50 million units, the position limits shall be equal to four times the limit levels provided for under sub-paragraphs (a)(i)(1) to (~~5~~6) above~~.~~; or

(D) for contracts for which the Underlying Interest is an exchange-traded fund that has assets under management of at least $10 billion and outstanding units in circulation of at least 300 million units, the position limits shall be equal to eight times the limit levels provided for under sub-paragraphs (a)(i)(1) to (6) above.

[...]

[...]

(d) Hedges exemptions

(i) In addition to the applicable position limits established under sub-paragraph (a)(i) and provided that a notice is sent to the Regulatory Division in accordance with paragraph (e) below, the following hedging Transactions and positions are allowed. The hedging Transactions and positions described in sub-paragraphs (1) through (~~5~~6) below shall be exempt from established position limits as prescribed under sub-paragraph (a)(i). Hedge Transactions and positions established pursuant to sub-paragraph~~s (6) and~~ (7) below are subject to a position limit equal to five (5) times the position limits established under sub-paragraph (a)(i) above.

(1) 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.

[...]

(6) Delta-based hedge - A position in Options or in Share Futures Contracts that is hedged using a delta-based model prescribed by the Bourse.

(~~6~~7) 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~~8) For those strategies described in sub-paragraphs (2) through (5) above, one component of the Option strategy can be an OTC Option Contract.

(ii) For purposes of sub-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 Canadian Investment Regulatory Organization.

[...]

(e) An Approved Participant must notify the Regulatory Division, in the form and manner prescribed, when the Approved Participant or any of its clients intends to rely on a hedge exemption described under paragraph (d), and in any event not later than 10:30 a.m. (ET) on the first business day following the day on which the limit has been exceeded, by providing the information on the relevant hedge Transactions and positions, including a detailed statement demonstrating the compliance with the applicable exemption.

APPENDIX B—CLEAN VERSION OF THE AMENDMENTS

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 sub-paragraph (b) (iii), are as follows:

(i) Share Futures Contracts, aggregated Options and Share Futures Contracts positions as well as Options on Equity Securities, 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;

[...]

(6) 500,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying Equity Security, exchange-traded fund or trust units totals at least 500 million shares or units of the Underlying Interest or the most recent interlisted six month trading volume totals at least 375 million shares or units of the Underlying Interest and at least 3 billion shares or units of this Underlying Interest are currently outstanding;

(7) for contracts where the underlying security is an exchange-traded fund, excluding a leveraged exchange-traded fund, the position limits are the following:

(A) for contracts for which the Underlying Interest is a narrow-based exchange-traded fund or a non-equity exchange-traded fund, the position limits shall be equal to twice the limit levels provided for under sub-paragraphs (a)(i)(1) to (6) 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 sub-paragraphs (a)(i)(1) to (6) above;

(C) for contracts for which the Underlying Interest is an exchange-traded fund that has assets under management of at least $1 billion and outstanding units in circulation of at least 50 million units, the position limits shall be equal to four times the limit levels provided for under sub-paragraphs (a)(i)(1) to (6) above; or

(D) for contracts for which the Underlying Interest is an exchange-traded fund that has assets under management of at least $10 billion and outstanding units in circulation of at least 300 million units, the position limits shall be equal to eight times the limit levels provided for under sub-paragraphs (a)(i)(1) to (6) above.

[...]

[...]

(d) Hedges exemptions

(i) In addition to the applicable position limits established under sub-paragraph (a)(i) and provided that a notice is sent to the Regulatory Division in accordance with paragraph (e) below, the following hedging Transactions and positions are allowed. The hedging Transactions and positions described in sub-paragraphs (1) through (6) below shall be exempt from established position limits as prescribed under sub-paragraph (a)(i). Hedge Transactions and positions established pursuant to sub-paragraph (7) below are subject to a position limit equal to five (5) times the position limits established under sub-paragraph (a)(i) above.

(1) 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.

[...]

(6) Delta-based hedge - A position in Options or in Share Futures Contracts that is hedged using a delta-based model prescribed by the Bourse.

(7) 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.

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

(ii) For purposes of sub-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 Canadian Investment Regulatory Organization.

[...]

(e) An Approved Participant must notify the Regulatory Division, in the form and manner prescribed, when the Approved Participant or any of its clients intends to rely on a hedge exemption described under paragraph (d), and in any event not later than 10:30 a.m. (ET) on the first business day following the day on which the limit has been exceeded, by providing the information on the relevant hedge Transactions and positions, including a detailed statement demonstrating the compliance with the applicable exemption.