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CIRCULAR
December 18, 2012

SELF-CERTIFICATION

REDUCTION OF THE S&P/TSX 60 INDEX OPTION (SXO) CONTRACT SIZE

ADMINISTRATIVE AMENDMENTS TO ARTICLES 6676 AND 6771 TO 6779 OF RULE SIX OF THE RULES OF BOURSE DE MONTRÉAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the amendments to Articles 6676 and 6771 to 6779 of Rule Six of the Bourse in order to make it possible to correct certain technical errors, thereby making the Rules clearer and easier to understand and interpret. The Bourse wishes to advise Approved Participants that such amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

Amendments to Rule Six of the Bourse, which you will find enclosed, are effective on **December 18, 2012**. Please note that amended versions of the Rules of the Bourse are available on the Bourse’s website (www.m-x.ca).

For further information, please contact Pauline Ascoli, Vice-President, Legal Affairs, Derivatives, at 514 871-3528 or at pascoli@m-x.ca.

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Circular no.: 176-2012



REDUCTION OF THE S&P/TSX 60 INDEX OPTION (SXO) CONTRACT SIZE

ADMINISTRATIVE AMENDMENTS TO ARTICLES 6676 AND 6771 TO 6779 OF RULE SIX OF THE RULES OF BOURSE DE MONTRÉAL INC.

I. Introduction

On June 25, 2012, Bourse de Montréal Inc. (the “**Bourse**”) performed a split on the S&P/TSX 60 (SXO) Stock Index Option. This split, which consisted of reducing the S&P/TSX 60 Index Option contract multiplier from \$100 per point to \$10 per point, was carried out in accordance with the usual approval and self-certification process.

The Bourse later observed that, within this context, certain minor amendments to other articles of Rule Six of the Bourse had been overlooked. The amendments in question concern article 6676 of the Rules, which covers the settlement of cash settled options, and Section 6771-6779 of the Rules, which contains the specific rules concerning S&P/TSX 60 Index Options.

The Bourse therefore proposes to make the following amendments, as detailed below.

II. Detailed Analysis

A. Article 6676 – Settlement in the Case of Cash Settled Options

Article 6676 describes the settlement method for cash settled options. In regards to S&P/TSX 60 Stock Index Options contracts, paragraph a) of article 6676 stipulates that a multiplier of \$100 must be used to calculate the amount to be paid or received in final settlement of the option on its expiration date. However, following the split of this option on June 25, 2012, the multiplier to be used is no longer \$100 but rather \$10. It is therefore proposed to correct the multiplier amount accordingly.

The Bourse also proposes to take this opportunity to make other form amendments to the text of article 6676, including, among other things, the removal of a reference to delivery in the title of article 6676, since this article concerns only the settlement of cash settled option, and also the replacement of the reference to the S&P/TSE 60 Index with a reference to the S&P/TSX 60 Index.

B. Section 6771 – 6779 – Specific Rules Regarding S&P/TSX 60 Index Option Contracts

For the purposes of the amendments to article 6676 proposed above, the Bourse asked the *Autorité des marchés financiers* (the “**AMF**”) to indicate whether it agreed with the fact that these were administrative amendments and whether it was necessary to proceed with a publication for comments as provided under article 7 of the *Derivatives Regulation*.

The AMF indicated that they agreed that these amendments are to be considered administrative and as such that they did not need to be published for comment before being self-certified and implemented.

However, the AMF requested that, as part of the above proposed amendments to article 6676, the Bourse also review Section 6771 – 6779 of the Rules of the Bourse in order to identify and make all the necessary form corrections. The AMF feels that since this Section focuses specifically on options subject to a stock split, it must also undergo the necessary administrative corrections.

The Bourse therefore proceeded with the requested review. The main correction made to this Section is the replacement of the reference to the S&P/TSE 60 Index with a reference to the S&P/TSX 60 Index. Certain form corrections were also made, in addition to the correction of reference to another article of the Rules of the Bourse.

III. Public interest

The proposed amendments to the Rules detailed in this analysis will make it possible to correct certain technical errors, thereby making these Rules clearer and easier to understand and interpret.

IV. Process

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the AMF in accordance with the self-certification process. They will also be transmitted to the Ontario Securities Commission for information.

It should also be mentioned that, after obtaining the AMF's agreement that the proposed amendments are administrative in nature, the Bourse will not publish a request for comments. The proposed amendments can therefore be self-certified upon the expiration of the 21-day period provided under article eight of the *Derivatives Regulation*.

V. References

Bourse de Montréal – Circular No. 078-2012 issued on May 31, 2012 – Self-Certification – Reduction of the S&P/TSX 60 Index Option (SXO) Contract Size – Amendments to Articles 6651, 6654, 6773 and 6775 of Rule Six - http://www.m-x.ca/f_circulaires_fr/078-12_fr.pdf

Autorité des marchés financiers - Règlement sur les instruments dérivés – Articles 7 and 8 - http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=3&file=/l_14_01/l14_01R1.HTM

VI. Attachments

- Rule Six of Bourse de Montréal Inc.: Amendments to Articles 6676 and Section 6671 – 6779.

6676 Settlement and Delivery in the Case of Cash Settled Options

(24.04.84, 06.08.86, 10.11.92, 07.09.99, 31.01.01, 29.04.02, 26.09.05)

- a) Settlement of positions held in the S&P/TSX 60 Stock Index option following an exercise shall be made by an exchange of cash between the clearing corporation and each of ~~its~~ the short and long clearing members pursuant to the rules of the clearing corporation. The amount to be paid or received in final settlement of each S&P/TSX 60 Stock Index option contract is determined by multiplying \$100 by the difference between the strike price and the official opening level of the S&P/TSX 60 Stock Index on the expiration date, expressed to two decimal places.
- b) Settlement of options positions held in the S&P/TSX sectorial indices following an exercise shall be made by an exchange of cash between the clearing corporation and each of ~~its~~ the short and long clearing members pursuant to the rules of the clearing corporation. The amount to be paid or received in final settlement of each S&P/TSX sectorial index option contract is determined by multiplying the trading unit by the difference between the strike price and the official opening level of the S&P/TSX sectorial index on the expiration date, expressed to two decimal places.
- c) Settlement of positions held in cash settlement sponsored options following an exercise must be made by an exchange of cash between the clearing corporation and each of ~~its~~ the clearing ~~members approved participant~~ holding a position pursuant to the ~~R~~ rules of the ~~Canadian Derivatives~~ clearing corporation. The amount to be paid or received in settlement of each sponsored option contract is determined by multiplying the unit of trading by the difference between the exercise price of the sponsored option and the price of the underlying interest as determined by the Bourse, multiplied by the designated CAN\$/foreign currency exchange spot rate.
- d) Settlement of positions held in currency option following an exercise shall be made by an exchange of cash between the clearing corporation and each of ~~its~~ the short and long clearing members pursuant to the rules of the clearing corporation. The amount to be paid or received in final settlement of each currency option contract is determined by multiplying the unit of trading by the difference between the strike price and the Bank of Canada "Noon rate" expressed in Canadian cents for the corresponding ~~-~~currency vis-à-vis the Canadian dollar on the expiration date.

OPTIONS ON THE S&P/TSX~~E~~ 60 STOCK INDEX

Section 6771 - 6779

Specific Rules Concerning the Contract Specifications

(07.09.99, [00.00.00](#))

6771 Application of Specific Rules

(07.09.99, 29.04.02, [00.00.00](#))

In addition to articles 6571-6700 of the Rules, options on the S&P/TSX~~E~~ 60 Stock Index shall be subject to the Rules contained in this section.

6772 Nature of Options

(07.09.99, 31.01.01, 29.04.02, [00.00.00](#))

A buyer of one S&P/TSX~~E~~ 60 Stock Index option may exercise his option only on the expiration date ("European style") to receive a cash payment equal to the difference between the strike price and the official opening level of the S&P/TSX~~E~~ 60 Stock Index on the expiration date, as provided for in article 6676 a) of the Rules.

The seller of one S&P/TSX~~E~~ 60 Stock Index option has, if the option is exercised, the obligation of rendering payment equal to the difference between the strike price and the official opening level of the S&P/TSX~~E~~ 60 Stock Index on the expiration date, as provided for in article 6676 a) of the Rules.

6773 Trading Unit

(07.09.99, 25.06.12, [00.00.00](#))

The multiplier for one option contract shall be CAN \$10 per index point of the S&P/TSX~~E~~ 60.

6774 Strike Prices

(07.09.99, [00.00.00](#))

Strike prices are set at a minimum of 2.5 index point intervals.

6775 Minimum Price Increment (Tick Size)

(07.09.99, 25.06.12)

The minimum tick size shall be:

.05 index point intervals equivalent to CAN \$0.50 per contract for premiums of .10 index points and over; and

.01 index point intervals equivalent to CAN \$0.10 per contract for premiums of less than .10 index points.

6776 Daily Price Limit

(07.09.99, 29.04.02, [00.00.00](#))

The Bourse will halt trading in options on the S&P/TSX~~E~~ 60 Stock Index in accordance with the Circuit Breaker Policy (T-3) of the Bourse.

6777 Last Trading Day
(07.09.99, [00.00.00](#))

Index options shall cease trading on the [BourseExchange](#) trading day preceding the Expiration Date of the contract month, as defined in article 6637 b) of the Rules.

6778 Trading Hours
(07.09.99, 29.04.02, abr. 06.01.03)

6779 Trading Halts or Suspensions
(24.09.01, [00.00.00](#))

A) Trading on the Bourse in an option on the S&P/TS~~XE~~ 60 stock index shall be halted whenever a Market Supervisor shall conclude, in his judgement, that such action is appropriate in the interests of a fair and orderly market. A Market Supervisor must take the following factors into account when deciding whether to halt or suspend trading in an option on the S&P/TS~~XE~~ 60 stock index class:

i) for options on the S&P/TS~~XE~~ 60 stock index, the extent to which trading is not occurring in stocks underlying the index;

ii) for options on the S&P/TS~~XE~~ 60 stock index, whether the most current calculation of the index derived from the current market prices of the stocks is available;

~~B~~iii) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.

~~B~~C) Trading in options on the S&P/TS~~XE~~ 60 stock index of a class or a series that has been the subject of a halt or suspension by the Bourse may resume if a Market Supervisor determines that the interests of a fair and orderly market are served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions which led to the halt or suspension are no longer present and the extent to which trading is occurring in stocks underlying the index.

~~C~~D) Once trading resumes, the pre-opening stage shall be done in accordance with article 637~~5~~6 of the Rules.