☐	Trading – Interest Rate Derivatives	☐	Back-office - Options
☐	Trading – Equity and Index Derivatives	☐	Technology
☐	Back-office – Futures	☒	Regulation
		☐	MCeX

CIRCULAR
November 26, 2009

REQUEST FOR COMMENTS

MODIFICATIONS TO THE TERMS OF POSITION LIMITS FOR OPTIONS

AMENDMENTS TO ARTICLES 6651, 6652 AND 6653 OF RULE SIX OF BOURSE DE MONTRÉAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved modifications to Rule Six of the Bourse. In addition to clarifying the fact that rules regarding position limits for options are applicable not only to equity options but also to Exchange Traded Funds (ETF) options and Income Trust Units options, these modifications will allow to expand the position limit exemption criteria applicable to bona fide hedgers. They also have the purpose to permit to the Bourse to use a certain discretion allowing it to increase position limits that are applicable to some ETF options when the trading activity in such options reaches a significant level. Finally, the proposed amendments will allow to harmonize the practices and standards of the Bourse with those that are currently in place on U.S. options exchanges.

Comments on the modifications to the terms of position limits for options must be submitted within 30 days following the date of publication of this notice, at the latest on **December 26, 2009**. Please submit your comments to:

Mr. François Gilbert
Vice-President, Legal Affairs (Derivatives)
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca

Circular no.: 179-2009

A copy of these comments shall also be forwarded to the Autorité to:

Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Appendices

For your information, you will find in appendices an analysis document of the proposed modifications as well as the proposed regulatory text. The implementation date of the proposed additions will be determined by the Bourse, in accordance with the self-certification process as established in the Derivatives Act, L.R.Q., c. I-14.01.

Process for Changes to the Rules

Bourse de Montréal Inc. is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (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 its Rules. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as established in the Derivatives Act, L.R.Q., c. I-14.01.

In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

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

MODIFICATIONS TO THE TERMS OF POSITION LIMITS FOR OPTIONS

AMENDMENTS TO ARTICLES 6651, 6652 AND 6653 OF RULE SIX OF BOURSE DE MONTRÉAL INC.

Bourse de Montréal Inc. (the Bourse) proposes to amend the bona fide hedger exemption criteria of position limits for options on equities, exchange-traded funds (ETF) and income trust units. The Bourse also proposes that it be permitted to use a certain discretion allowing the Bourse to increase position limits applicable to some options on ETFs when the trading activity on such options reaches a significant level. The main purpose of the proposed amendments is to harmonize the Bourse's practices and standards with those that are in place on U.S. markets.

Furthermore, the Bourse wishes to take this opportunity to modify its rule on position limits for options to clarify that the provisions of this rule are not only applicable to equity options, but also to options on ETFs and on income trust units.

I. OVERVIEW

a) Proposed Amendments

Articles 6651, 6652 and 6653 of Rule Six

The Bourse proposes to amend Article 6651 of Rule Six (Position Limits) in order to include explicitly options on exchange-traded funds (or ETF) and on income trust units together with equity options.

The Bourse also proposes to amend article 6651 of Rule Six in order to:

1) Add new acceptable hedging transactions and positions: collars, reverse collars and box spreads. These transactions will be added to the actual list of eligible transactions in the Rules of the Bourse (conversions, reverse conversions, long and short hedges) and will be subjected to conditions similar to those established on the U.S. markets.

2) Allow the use of OTC options to execute a hedging strategy as it is allowed on the U.S. markets.

3) Eliminate any position limit on eligible hedging transactions, except for a box spread where the limit is set at five times the regular limit.

4) Apply a limit of five times the standard position limit when a position on an exchange-listed option is covered by a position on an over-the-counter option having the same underlying interest.

5) Allow the Bourse to increase the position limits to 300,000 contracts on selected ETF options (e.g.: XIU, XFN, XEG and XGD) when the trading activity and interest in these options justify such an increase.

Moreover, the Bourse proposes to clarify the text of Article 6653 of Rule Six stipulating that, in the case of an underlying interest split, the Bourse will increase temporarily the position limit on existing option series until the expiry of the farthest listed contract month, and this, despite the fact that this new position limit may exceed the maximum position limit prescribed by the Bourse in Article 6651.

Lastly, housekeeping amendments were also made throughout articles 6651, 6652 and 6653.

II. RATIONALE

Because of concerns expressed by institutional market participants that position limits may potentially be exceeded, the Bourse proposes to:

- enlarge the criteria for bona fide hedger exemption when positions are taken for hedging purposes;

- to implement a regulatory provision that would allow the Bourse to establish a greater position limit (300,000 contracts) for options on ETFs that are the most actively traded on its market. Actually, the ETF options that are the most actively traded are on the following ETFs: iShares CDN S&P/TSX 60 Index Fund (XIU), iShares CDN S&P/TSX Capped Energy Index Fund (XEG), iShares CDN S&P/TSX Capped Financials Index Fund (XFN) and iShares CDN S&P/TSX Global Gold Index Fund (XGD). Given the sustained interest of institutional participants for options on these ETFs, the Bourse would apply the proposed increased limit to these options.

Several factors support adopting the proposed amendments:

a) Harmonization of the Canadian and U.S. Market Practices

Hedge exemption to position limits:

The harmonization of the Canadian practices with the ones in place at U.S. exchanges would allow holders of hedging positions on the Bourse to not be at a disadvantage compared to when executing similar transactions on the U.S. markets.

The current Rules of the Bourse only allow approved participants, or their clients, to double their position limits and only for the following hedging transactions: conversion, reverse conversion, long and short hedges.

However, U.S. options exchanges allow a more extensive list of hedging transactions. Thus, as allowed by U.S. options exchanges, it is proposed to add new strategies to the list of already permitted hedging strategies, such as:

- collars: a short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call equals or exceeds the strike price of the long put, and where each short call and long put position is accompanied by a long position in the underlying interest[1];

- reverse collars: a long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is accompanied by a short position in the underlying interest[2];

[1] Such strategies are acceptable only when the call and put options are out-of-the-money at the time the position is established.
[2] Same as note 2 above.

- box spreads: a long call position accompanied by a short put position with the same strike prices and a short call position accompanied by a long put position with a different strike price;

- hedging strategies using over-the-counter (OTC) options.

Furthermore, all the proposed hedging transactions are not subject to any position limit on U.S. exchanges except for the box spread strategy and strategies using OTC options where the limit is five times the standard limit.

All hedging transactions described above are recognized not only by the market but also in the actual margin rules of North American self-regulatory bodies such as IIROC and FINRA. Such rules formally recognize these hedging transactions and provide for significantly reduced margins when brokers or their clients hold such positions in their accounts.

Increase of position limits for options on exchange-traded funds (ETFs)

Many market participants of the Bourse find too restrictive the actual position limits for options on the most actively traded ETFs (XIU, XFN, XEG, XGD). Thus, many of these participants would rather trade on the OTC market when they are considering important transactions since the OTC requirements for position limits are much less restrictive, or nonexistent.

Furthermore, ETF options have a special status in the rulebooks of U.S. exchanges. For example, CBOE's Rule 4.11 states that QQQQ[3] options benefit from a special treatment concerning position limits. Actually, the position limit is set at 900,000 contracts for the QQQQ options whereas the actual limit for other options classes does not exceed 250,000 contracts. PHLX's Rule 1001, ISE's Rule 412 and NYSE's Rule 904 specify position limits identical to those of the CBOE, including the 900,000 contract limit for QQQQ options. ISE's rule 412 and NYSE's rule 904 also provide for higher position limits for Diamond[4] and SPY[5] options (limits of 300,000 contracts) and for options on the ETF replicating the Russell 2000 Index (limit of 500,000 contracts). Thus, we notice that, contrary to options on ETFs traded on U.S. exchanges, options on ETFs listed on the Bourse do not benefit from any special treatment for position limits. It is also interesting to note that the market capitalization for the XIU is roughly $11 billion (B), compared to only $17B for the QQQQ who is however entitled to a position limit of 900,000 contracts. The Diamonds, SPY and Russell 2000 funds have a respective market capitalization of $7.5B, $70.5B and $11.5B.

As for options on sectorial ETFs, most U.S. options on such ETFs have a maximum position limit of 250,000 contracts whereas the Bourse fixes this maximum limit at 75,000 contracts. It is the case for options on XEG (energy sector), on XFN (financial sector) and XGD (gold sector). The market capitalization of these ETFs can be compared, as follows, with similar ETFs in the U.S.

Energy Sector ETF (XEG)		
ETF Options	**Position Limit**	**Underlying Market Capitalization**
XEG - Bourse de Montréal	75,000 contracts	C$ 759 million (M)
IYE – Dow Jones U.S Energy Sector Index	250,000 contracts	US$ 733M
IXC – S&P Global Energy Sector Index	250,000 contracts	US$ 1.066B

[3] QQQQ is an exchange-traded fund on the NASDAQ 100 Index. QQQQ options have the same specifications as options on ETFs traded on the Bourse.
[4] Diamonds is an exchange-traded fund listed on the American Stock Exchange. This fund comprises the 30 components of the DJIA Index (Dow Jones Industrial Average).
[5] SPY options are on the SPDR (Standard & Poor's Depository Receipt) exchange-traded fund. It replicates the S&P 500 Index.

Financial Sector ETF (XFN)		
ETF Options	**Position Limit**	**Underlying Market Capitalization**
XFN - Bourse de Montréal	75,000 contracts	C$ 903M
IYF – Dow Jones U.S Financial Sector Index	250,000 contracts	US$ 497M
IYG - Dow Jones U.S Financial Services Index	250,000 contracts	US$ 384M

Gold Sector ETF (XGD)		
ETF Options	**Position Limit**	**Underlying Market Capitalization**
XGD - Bourse de Montréal	75,000 contracts	C$ 1.209B
IAU – COMEX Gold Trust	250,000 contracts	US$ 2.812B

b) Position Limits too Restrictive for participants

Institutional traders who trade XIU options to hedge a large portfolio position (cash/derivative), highly correlated to the S&P/TSX 60™ Index, find the position limit of 75,000 contracts (or 150,000 contracts for hedging positions) too restrictive. For example, to hedge perfectly a portfolio worth $500M, it would require taking a position on 293,000 XIU contracts (1 contract was worth $1,678 as of the close of markets on November 6, 2009), largely exceeding the limit of 150,000 contracts.

Considering the actual value of one unit of the XIU ETF ($16.78 as of November 6, 2009), the actual maximum position limit of 75,000 XIU option contracts represents a total notional value of approximately $126M. By comparison, the notional values of the above-mentioned U.S. ETFs are much higher[6] as shown in the following table:

ETF Options	Position Limits	Unit Value as of November 6, 2009	Total Notional Value Permitted by the Position Limit
XIU – Bourse de Montréal	75,000 contracts	C$ 16.78	C$ 126M
QQQQ	900,000 contracts	US$ 42.60	US$ 3.834B
SPY	300,000 contracts	US$ 107.13	US$ 3.214B
Diamonds	300,000 contracts	US$ 100.37	US$ 3.011B
Russell 2000	500,000 contracts	US$ 58.08	US$ 2.904B

As we can notice, the U.S. position limits allow for the accumulation of options positions on a notional value that is, in average, 26 times higher than what can be accumulated on the XIU options.

As for options on sectorial ETFs, the same problem exists as shown in the following tables.

[6] To obtain the maximum notional value allowed, we must multiply the position limit by 100 (number of units underlying the option), then multiply the result by the market value of each unit.

Energy Sector ETF (XEG)			
ETF Options	**Position Limits**	**Unit Value as of November 6, 2009**	**Total Notional Value Permitted by the Position Limit**
XEG - Bourse de Montréal	75,000 contracts	C$ 17.99	C$ 135M
IYE – Dow Jones U.S Energy Sector Index	250,000 contracts	US$ 33.46	US$ 836M
IXC – S&P Global Energy Sector Index	250,000 contracts	US$ 35.89	US$ 897M

Financial Sector ETF (XFN)			
ETF Options	**Position Limits**	**Unit Value as of November 6, 2009**	**Total Notional Value Permitted by the Position Limit**
XFN - Bourse de Montréal	75,000 contracts	C$ 21.05	C$ 158M
IYF – Dow Jones U.S Financial Sector Index	250,000 contracts	US$ 50.73	US$ 1.268B
IYG - Dow Jones U.S Financial Services Index	250,000 contracts	US$ 53.64	US$ 1.341B

Gold Sector ETF (XGD)			
ETF Options	**Position Limits**	**Unit Value as of November 6, 2009**	**Total Notional Value Permitted by the Position Limit**
XGD - Bourse de Montréal	75,000 contracts	C$ 21.98	C$ 165M
IAU – COMEX Gold Trust	250,000 contracts	US$ 107.54	US$ 2.689B

Furthermore, if we compare XIU options to another option traded on the Bourse, for example SXO options which are options on the S&P/TSX 60 Index, we note an imbalance because, since the actual position limit of 75,000 XIU options contracts allow to take a position having a maximum notional value of $126M, SXO Options—whose position limit is 50,000 contracts—allow to take a position on an notional value of approximately $3.3B[7], approximately 27 times higher.

Thus, speculators, who are not eligible to bona fide hedge exemption, are unfairly limited in taking positions on XIU options for a same level of risk, not only compared to similar options traded on the U.S. markets, but also compared to SXO options that are traded on the Bourse.

c) Growing Equity Options Volumes

- Equity options volume in Canada (the Bourse) increased approximately four-fold between 2000 and 2009.

- Volume growth rate on the Bourse is comparable to the growth on the U.S. options markets:
    - Between 2000 and September 2009, equity options volume in the U.S. has increased approximately five-fold.

[7] The amount of $3.3B is calculated by multiplying the S&P/TSX 60 Index level of 667.31 at the close on November 6, 2009 by $100 and then, by the maximum position limit.

- Table A illustrates volume growth between 2000 and 2009 for the Bourse and U.S. options markets.

Table A: Annual Average Daily Trading Volumes on the Bourse and U.S. Options Markets

Year	Bourse de Montréal	U.S. Markets
2000	18,860	2,884,921
2001	20,716	3,103,175
2002	24,811	3,095,238
2003	26,296	3,603,175
2004	34,165	4,690,476
2005	39,810	5,968,254
2006	48,672	8,047,619
2007	53,264	11,361,111
2008	62,106	14,237,089
2009 (YTD Sept. 2009)	66,944	14,438,592

- The volume on XIU options (iShares CDN S&P/TSX 60 Index Fund) on the Bourse has increased by more than 10 times between 2000 and 2009. This increase is particularly notable since 2005 when traded volumes had more than tripled and open interest had increased by 15 times. The volume and open interest on XFN options (iShares CDN S&P/TSX Capped Financials Index Fund) has also experienced a robust growth since 2007, an increase higher than 3 times. Although the growth on XEG options (iShares CDN S&P/TSX Capped Energy Index Fund) and XGD options (iShares CDN S&P/TSX Global Gold Index Fund) is lesser, it is anticipated that these two sectors will have a solid growth in the coming months. Consequently, the Bourse estimates that it would be best to give them a special status.

- Table B shows the volume growth between 2001 and 2009 for the options market on the most active ETFs (XIU, XFN, XEG, XGD) classes on the Bourse.

Table B: Options on the Most Active ETFs – Average Daily Volume

Year	XIU	XFN	XEG	XGD
2001	509	-	-	-
2002	942	-	-	-
2003	1,076	579	62	103
2004	1,176	289	149	216
2005	2,479	395	905	444
2006	3,181	521	935	516
2007	3,129	403	628	355
2008	4,052	780	322	233
2009 (as of September 30, 2009)	7,675	1,370	291	324

- Table C shows the open interest change between 2001 and 2009 for the options market on the most active ETFs classes (XIU, XFN, XEG, XGD) on the Bourse.

Table C: Options on the Most Active ETFs – Open Interest

Year	XIU	XFN	XEG	XGD
2001	8,408	-	-	-
2002	18,450	-	-	-
2003	30,497	5,618	6,380	3,752
2004	22,331	8,468	8,213	5,773
2005	32,970	14,064	29,687	8,220

2006	42,166	28,809	19,263	9,759
2007	28,436	12,404	9,635	9,455
2008	85,484	13,128	16,132	12,245
2009 (as of September 30, 2009)	494,224	38,650	19,232	19,684

d) Inability to Compete with the OTC Market

Trading volume on equity options is rising and demand from institutional investors is also growing. There is a concern that current position limits for ETF options (XIU, XFN, XEG and XGD), that are too restrictive, are preventing a fair and effective competition between the exchange-listed options market and the OTC options market.

e) Existing Control Mechanisms to Reduce the Risks Caused by Increased Limit Positions

Regulatory surveillance: Existing surveillance procedures and reporting requirements are well established to identify unusual and illegal activity.

III. PROPOSED AMENDMENTS

The Bourse proposes to amend articles 6651, 6652 and 6653 of Rule Six as follows:

<u>Article 6651 – Position Limits for Options</u>

- Housekeeping amendments to paragraphs A) and C) of this article;

- Housekeeping amendments to paragraph B) as well as addition of precisions to clarify that position limits discussed in this paragraph are not only applicable to equity options, but also to options on ETFs and on income trust units;

- Addition of a generic provision to paragraph B) allowing the Bourse to establish a special position limit of 300,000 contracts for certain ETF options that are more actively traded so that they can benefit from less restrictive position limits than those established for regular equity options;

- Addition to subparagraph D) 1. of new bona fide hedge strategies eligible (e.g. collar, reverse collar, box spread) to a position limit exemption and of provisions recognizing the use of over-the-counter options in hedge strategies. Each new added strategy is described and provides for the conditions required for its application, similarly to the other strategies already provided for in this paragraph;

- With the addition of these new strategies, substitution of the provision in subparagraph D) 2. (that previously allowed the established limit to be doubled) with a provision at the beginning of subparagraph D) 1. stipulating that no position limit will be applicable when such strategies are executed or, when the strategy does not include a position in the underlying interest, allowing five times the standard limits established in paragraph B) of article 6651;

- Addition of a clause i) to subparagraph D) 1. defining the expression “over-the-counter option” for application purposes of provisions relative to the position limits exemption;

- Addition of a new subparagraph D) 3. allowing the Bourse to conduct an audit of hedge positions in order to ensure that they conform to the conditions established by the Bourse to be considered as an acceptable hedge;

- Addition to paragraph E) of a provision allowing approved participants to benefit from an exemption on position limits when a hedge strategy not described in paragraph D) is executed. In such cases, the strategy will be reviewed by the Bourse who will determine if the hedge strategy is acceptable and will provide for a specific position limit. Such provision is necessary in light of strategies other than those described in paragraph D) that can be executed and be as valid. Some technical amendments are also proposed such as replacing the reference to an “appropriate form” by a reference to “as prescribed by the Exchange”.

<u>Article 6652 – Exercise Limits</u>

- Housekeeping amendments only.

<u>Article 6653 – Variation to Position and Exercise Limits</u>

- It is proposed to rework the text of this article in order to clarify the fact that, when there is a split of the underlying interest, the Bourse will adjust accordingly the applicable position limit and that such adjustment will be applicable to all concerned option series that are listed on the date of the split. The adjusted limit will be in effect until the expiration of the farthest listed series. New option series listed after the date of the split will be subject to standard limits;

- The provision relative to a notice posting on the bulletin board of the option trading floor is abrogated since such provision is obsolete.

IV. OBJECTIVE OF THE PROPOSED AMENDMENTS

The objectives of the proposed amendments to articles 6651, 6652 and 6653 of Rule Six are to:

a) Modify the bona fide hedger exemption criteria for equity options, options on exchange-traded funds and on income trust units in order to harmonize the Bourse’s practice with the U.S markets.

b) Provide the Bourse with the flexibility to increase position limits to 300,000 contracts on selected ETF options (e.g.: XIU, XFN, XEG and XGD) when trading activity and interest in these options justify such an increase.

c) Clarify the provisions applicable to the increase of position limits for equity options, options exchange-traded funds and on income trust units that are listed for trading when an underlying interest split occurs. These increased limits, applicable to all option series available for trading on the date of the split, will be effective until the expiry of the farthest listed contract month.

d) Make housekeeping amendments.

V. PUBLIC INTEREST

Amendments to the Rules of the Bourse are proposed in order to make the use of equity options, options on exchange-traded funds and on income trust units more accessible and efficient for market participants who have expressed their support for such contracts.

VI. PROCESS

The proposed amendments are submitted to the Rules and Policies Committee of the Bourse for approval. Once the approval has been obtained, they will then be transmitted to the Autorité des marchés financiers (AMF) in accordance with the self-certification process and to the Ontario Securities Commission (OSC) for information. The proposed amendments will also be published for a 30-day comment period.

VII. ATTACHED DOCUMENTS

- Rule Six of Bourse de Montréal Inc.: amendments to articles 6651, 6652 and 6653

Sources:

Links to the regulation of U.S. exchanges on general position limits, on bona fide hedge exemptions, and on the granting of special position limits for certain exchange-traded funds (ETFs):

- BOX (Sections 7 & 8):
  - http://www.bostonoptions.com/box_regulations/PDF/BOX_RULES.pdf
- ISE (Rule 412 & 413):
  - https://www.ise.com/assets/documents/OptionsExchange/legal/rules/rules.pdf
- PHLX (Rule 1001):
  - http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLXTools/bookmark.asp?id=sx-policymanual-phlx_1001&manual=/nasdaqomxphlx/phlx/phlx-rulesbrd/
- CBOE (Rule 4.11.):
  - http://cchwallstreet.com/CBOETools/bookmark.asp?id=sx-policymanual-cboe_4.11&manual=/cboe/rules/cboe-rules/
- NYSE-AMEX (Rule 904):
  - http://nyseamexrules.nyse.com/AMEXTools/bookmark.asp?id=sx-policymanual-amex_904PositionLimits&manual=/amex/rules/amex-rules/

Section 6651 - 6670
Limits and Restrictions

6651 Position Limits for Options
(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91,10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 00.00.00)

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

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

1. Options on s~~S~~tocks, exchange-traded funds or ~~index participation~~income trust units~~ options~~

   a) 13,500 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) ~~and~~ to B) 1. ~~e~~e) of the present~~is~~ article;

   b) 22,500 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit~~interest~~ totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions ~~on the underlying interest~~ totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;

   c) 31,500 contracts, where either the most recent interlisted six-month trading volume of transaction on ~~in~~ the underlying stock, exchange-traded fund or income trust unit ~~interest~~ totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding.

   d) 60,000 contracts, where either the most recent interlisted six-month trading volume of transaction on~~in~~ the underlying stock, exchange-traded fund or income trust unit ~~interest~~ totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of the underlying interest are currently outstanding.

   e) 75,000 contracts, where either the most recent interlisted six-month trading volume of transaction on~~in~~ the underlying stock, exchange-traded fund or income trust unit ~~interest~~ totals at least 100 million shares or units of the underlying interest, or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares or units of the underlying interest and at least 300 million shares or units of the underlying interest are currently outstanding.

f) exceptionally, 300,000 contracts for a Bourse's designated restricted list of options on exchange-traded funds which are more actively traded.

2. Debt options

   8,000 contracts;

3. Index options

   50,000 contracts;

4. 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.

5. Sponsored options

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

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

6. Currency options

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

C) For the purpose of this article:

1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;

2. the account of ~~an individual member or of the~~restricted trading permit holder ~~of a restricted trading permit~~ will not be counted with that of his clearing ~~member~~ broker unless the clearing ~~member~~ broker has an interest in the account;

3. the Exchange may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Exchange and reasonable notice shall be given of each new position limit.

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

1. The following hedging transactions and positions described in paragraphs (a) through (f) below shall be exempt from any position limits. Hedging transactions and positions described in paragraphs (g) and (h) below are subject to a position limit equal to five (5) times the standard limit.

For the purposes of the present ~~is~~ article the following defined hedges are approved by the Exchange:

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

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

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

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

e) collar: where a short call position is accompanied by a long put position where the short call expires with the long put, and the strike price of the short call equals or exceeds the strike price of the long put, and where each short call and long put position is accompanied by a long position in the underlying interest. The call and put options must be out-of-the-money at the time the position is established;

f) reverse collar: where a long call position is accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is accompanied by a short position in the underlying interest. The call and put options must be out-of-the-money at the time the position is established.

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

h) when a exchange-listed option position is covered by an over-the-counter option position on the same underlying interest. The strike prices of the exchange-listed option and over-the-counter option must be within one strike interval of each other and no more than one expiration month apart;

i) for those strategies described under paragraphs (c) through f) above, one component of the option strategy can be an over-the-counter option contract guaranteed or endorsed by the approved participant maintaining the proprietary position or carrying the client account;

j) for the present article, the “over-the-counter” expression refers to an option contract that is not listed on the Bourse or that is not cleared at the clearing corporation.

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

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

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

2~~3~~. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. ~~a~~c) and ~~b~~d), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

3. For any position exceeding the position limits established in paragraph B) of the present article, the Bourse may proceed to an audit of the position in order to ensure that there is an acceptable hedger as defined in paragraphs 1. a) through 1. h) above.

E) Exemption

When an approved participant or a client establishes a bona fide hedging position that is not described in paragraph D) above, the approved participant may, a~~A~~s described in Policy C-1 of the Exchange, ~~a member may~~ file with the Exchange an application to obtain on behalf of a bona fide hedger an exemption from the position limits prescribed in this article. The application must be filed as prescribed by the Exchange~~on the appropriate form,~~ no later than the next business day after the limit has been exceeded. If the application is rejected, the ~~member~~ approved participant or client shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted. ~~-~~A bona fide hedger may also under certain circumstances file directly with the Exchange, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Exchange.

6652 Exercise Limits
(10.11.92, 00.00.00)

Except with the written permission of the Exchange, no ~~member~~ approved participant or restricted trading permit holder shall exercise, for any account in which he has an interest or for the account of any client, a long position in any option where such ~~member~~approved participant, client or restricted trading permit holder, acting alone or in concert with others, directly or indirectly, has or will have exercised, within any five (5) consecutive business days an aggregate long position exceeding the number of contracts established as position limits by article 6651.

6653 Variation to Position and Exercise Limits
(10.11.92, 00.00.00)

In the case of a stock split in the underlying interest, the Exchange will establish special position and exercise limits reflecting the basis at which the split occurs.

These special limits shall apply to all option series that are listed for trading on the date of the split in the underlying interest and shall be in effect until the expiry of the farthest contract month.

New ~~option~~ series ~~:~~

~~a)the Exchange may establish special position and exercise limits which may reflect the basis of the stock split, providing that~~

~~b)the normal limits shall apply to the aggregate positions of all new option series~~ of ~~that~~ such ~~class~~ ~~of~~ options listed after the date of the split will retain the standard limits for the overall positions on such new series.~~.~~

~~Prompt notice shall be given for each new limit fixed by the Exchange, by posting notice thereof on the bulletin board of the option trading floor and by notice to members.~~