



CIRCULAR 180-20

October 23, 2020

SELF-CERTIFICATION

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

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

These amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (CQLR, Chapter I-14.01).

These amendments attached herewith will become effective on **October 30, 2020**, after market close. Please note that the revised articles will also be available on the Bourse’s website (www.m-x.ca). Also note that the numbering of the amendments was adapted to the current version of article 6.309 and that an adjustment will be made once the rules changes regarding position limits at the Bourse will be self-certified, as proposed under circular [149-19](#).

The amendments described in the present circular were published for public comment by the Bourse on September 18, 2020 (see circular [159-20](#)). Further to the publication of this circular, no comment was received by the Bourse.

For additional information, please contact Alexandre Normandeau, Legal Counsel, at 514-787-6623 or by email at alexandre.normandeau@tmx.com.

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Bourse de Montréal Inc.

ANNEX 1 - PROPOSED AMENDMENTS

AMENDED VERSION

PART 6 - TRADING RULES

Chapter D—Listed Products

Article 6.309 Position Limits for Options and Share Futures Contracts

- (a) Except for those limits specified in Article 6.309, no Approved Participant shall make, for any account in which it has an interest or for the account of any client, a Transaction in a Listed Product if the Approved Participant has reason to believe that as a result of such Transaction the Approved Participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limit established by the Bourse.
- (b) Except otherwise indicated, the applicable position limits for options, share futures contracts or aggregated options and share futures contracts (as defined under paragraph c) iii)) are as follows:
 - (i) Share Futures Contracts, aggregated Options and Share Futures Contracts positions as well as Options on stocks, exchange-traded funds or trust units
 - (1) 25,000 Contracts where the underlying security does not meet the requirements set out in sub-paragraphs b)(i)2) and b)(i)3) of the present Article;
 - (2) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions totals at least 15 million shares or units of the Underlying Interest and at least 40 million shares or units of this Underlying Interest are currently outstanding;
 - (3) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume 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;
 - (4) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 80 million

shares or units, or the most recent interlisted six-month trading volume on the Underlying Interest totals at least 60 million shares or units of the Underlying Interest and at least 240 million shares or units of this Underlying Interest are currently outstanding;

- (5) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or trust unit totals at least 100 million shares or units of the Underlying Interest or the most recent interlisted six month trading volume on the Underlying Interest totals at least 75 million shares or units of the Underlying Interest and at least 300 million shares or units of this Underlying Interest are currently outstanding;
- (6) 600,000 contracts on the following exchange-traded funds: units of the iShares S&P/TSX 60 Index Fund (XIU);
- (7) except for the specific limits provided for under paragraph b)(i)6) above, for Contracts where the underlying security is an equity holding exchange-traded fund, defined as an exchange-traded fund for which all of the components are exchange-traded stocks, the position limits shall be equal to twice the limit levels provided for under paragraphs b)(i)1) to 5) above.

(ii) Debt options

8,000 contracts.

(iii) Index options

50,000 standard Options contracts on the S&P/TSX 60 Index.

(iv) Sector index options

40,000 contracts.

(v) 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.

(vi) 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:
 - (i) Calls written, Puts held, a net short share futures position, and short Underlying Interest are on the same side of the market and Puts written, Calls held, a net long Share Futures position, and long Underlying Interest are on the same side of the market;
 - (ii) the Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit;
 - (iii) the “aggregated options and share futures contracts position” is obtained by first netting share Futures Contracts positions relating to the same Underlying Interest and subsequently adding the net Futures Contracts position (net long or net short) to Options positions relating to the same Underlying Interest on a per side basis (whether long or short) to determine the aggregate per side quantity held; one Option Contract being equal to one share Futures Contract for purposes of this calculation
- (d) Conversions, reverse conversions, long and short hedges
 - (i) For the purposes of this Article the following defined hedges are approved by the Bourse:
 - (1) 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 Exercise 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;
 - (2) 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 Exercise 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;
 - (3) 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;
 - (4) 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.

- (ii) In addition to the position limits set out in paragraph b), any one account may hold an amount of options not exceeding the applicable paragraph b) limit of any combination of the approved hedge positions defined in subparagraphs d (i)1) to d(i)4), inclusive.
- (iii) For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph (d)(i)(1) and (2), 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.
- (iv) In addition to the applicable position limits established under paragraph (b)(i), shall be exempt from established position limits as prescribed under such paragraph, the hedging Transactions and positions where each Share Futures Contract is hedged or covered by 100 shares of the underlying Security or by Securities convertible into 100 shares of the underlying Security or, in the case of an adjusted Share Futures Contract, the same number of shares represented by the adjusted contract: (a) Long Position on a Share Futures Contract and a Short Position on the underlying Security; or (b) Short Position on a Share Futures Contract and a Long Position on the underlying Security.

(e) Exemption

As described in Policy C-1, an Approved Participant or a client may file, in the form prescribed, an application with the Bourse to obtain on behalf of a bona fide hedger or for risk management purposes an exemption from the position limits prescribed by the Bourse. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the Approved Participant or client shall reduce the position below the prescribed limit within the period set by the Bourse. The Bourse may modify any exemption which has been previously granted.

CLEAN VERSION

PART 6 - TRADING RULES

Chapter D—Listed Products

Article 6.309 Position Limits for Options and Share Futures Contracts

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 - (ii) In addition to the position limits set out in paragraph b), any one account may hold an amount of options not exceeding the applicable paragraph b) limit of any combination of the approved hedge positions defined in subparagraphs d (i)1) to d(i)4), inclusive.
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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.

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