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CIRCULAR 007-14
January 20, 2014

REQUEST FOR COMMENTS

MARKET-WIDE TRADING HALT UPON THE TRIGGERING OF A CIRCUIT BREAKER

ADDITION OF ARTICLE 6636.1

REPEAL OF POLICY T-3 (CIRCUIT BREAKER)

REPEAL OF ARTICLES 6202 AND 6204

AMENDMENTS TO ARTICLES 6201, 6203, 6776, 6785 AND 6808

TECHNICAL AMENDMENTS TO SECTION 6780-6800 (OPTIONS ON S&P/TSE SECTORIAL INDICES)

The Rules and Policies Committee and the Special Committee – Regulatory Division of Bourse de Montréal Inc. (the Bourse) have approved amendments and repeals to Rule Six and to Policy T-3 of the Rules and Policies of the Bourse. The purpose of these amendments is to update those provisions of the Bourse’s regulations that apply upon the triggering of a market-wide circuit breaker on the underlying interest.

Comments on the proposed amendments and repeals to Rule Six and to Policy T-3 of the Rules and Policies of the Bourse must be submitted within 30 days following the date of publication of the present notice, at the latest on February 20, 2014. Please submit your comments to:

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Vice-President, Legal Affairs (Derivatives)
Bourse de Montréal Inc.
Tour de la Bourse
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Montréal, Quebec H4Z 1A9
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A copy of these comments shall also be forwarded to the Autorité to:

M^e Anne-Marie Beaudoin
Corporate Secretary
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 rule amendments and abrogations as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self certification process as established in the Derivatives Act (2008, c.24).

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 (2008, c.24).

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. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



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**TECHNICAL AMENDMENTS TO SECTION 6780-6800
(OPTIONS ON S&P/TSE SECTORIAL INDICES)**

I SUMMARY

The Bourse wishes to update those provisions of its regulations that apply upon the triggering of a market-wide circuit breaker on the securities underlying certain derivatives traded on its market. The amendments being contemplated as part of this update involve the repeal of Policy T-3 (Circuit Breaker), the repeal of articles 6202 (Proceeding at Trading Sessions) and 6204 (Delayed, Halted and Suspended Trading), the addition of article 6636.1 (Triggering of a Circuit-Breaker on the Underlying Interest) and amendments to articles 6201 (Daily Trading Sessions), 6203 (Suspension of Trading Sessions), 6776 (Daily Price Limit), 6785 (Daily Price Limit) and 6808 (Price Limits / Trading Halts).

At the same time, the Bourse is proposing to make certain technical amendments to the section dealing with options on S&P/TSE sectorial indices and, more particularly, to articles 6780 (Application of Specific Rules), 6781 (Nature of Options), 6785 (Daily Price Limit) and 6788 (Trading Halts or Suspensions).

II ANALYSIS

A) Background

New rules respecting market-wide circuit breakers recently came into force in the United States. In this context, the Investment Industry Regulatory Organization of Canada (IIROC) issued a Guidance Note on the subject last February¹ which deals in particular with the process of coordinating market-wide circuit breakers in Canada with those applied in the United States.

¹ Rules Notice 13-0059 issued by IIROC on 21 February 2013.

Currently, the provisions that apply in this matter can be found in Policy T-3 (“Circuit Breaker”) of the Bourse. Furthermore, certain provisions of the Bourse’s Rule Six (Trading) specifically refer to Policy T-3, particularly in those sections that deal with S&P/TSX 60 Stock Index Options, options on the S&P/TSE sectorial indices and futures contracts.

Taking into account the new rules in force in the United States and the related Guidance Note issued by IIROC, the Bourse proposes to update the current provisions of its regulations that deal with this subject matter, in addition to including similar provisions for stock options, options on exchange-traded fund units and options on income-trust units. It is also proposing to make technical corrections to the section of Rule Six that pertains to options on S&P/TSX sectorial indices, currently termed “S&P/TSE sectorial indices”, as well as repeal provisions that have become obsolete.

B) Proposed Repeals

Policy T-3 — Circuit Breaker

Considering the following proposed amendments to the Bourse’s Rule Six (Trading) and the new rules in force respecting market-wide circuit breakers, the Bourse proposes to repeal Policy T-3 in its entirety.

Policy T-3, which is now obsolete, described the circumstances in which a trading halt on all listed securities could arise. The new approach proposed by the Bourse consists instead in adding provisions to Rule Six to ensure that the trading halts in such circumstances are coordinated with the trading halt mechanism of the underlying interest.

Rule Six — Trading

Article 6202 — Proceeding at Trading Sessions

Article 6204 — Delayed, Halted and Suspended Trading

Because these provisions refer to trading activity on the trading floor and in the securities market, and are therefore obsolete, the Bourse proposes to repeal them.

C) Proposed Amendments

Article 6201 — Daily Trading Sessions

Article 6203 — Suspension of Trading Sessions

The Bourse wishes to update these articles and, for this purpose, proposes to remove therefrom any reference to the Governing Committee, the Executive Committee or to the members, as these terms have now become obsolete. Furthermore, the Bourse proposes to maintain the provisions of these articles which stipulate that the Bourse may set market opening and closing times, as well as partially or totally suspend trading where urgent circumstances warrant.

The Bourse further proposes to repeal article 6203 b), which specifically refers to Policy T-3, in view of the proposed repeal of Policy T-3.

Article 6776 — Daily Price Limit

Article 6776 can be found in that section of Rule Six that deals with S&P/TSX 60 Stock Index Options (SXO).

As a first step, and with a view to bringing them into line with the other amendments proposed herein, the Bourse proposes to amend the heading of article 6776 so that it refers to the subject matter thereof, i.e., the triggering of a circuit breaker on the interest underlying the index.

The Bourse also proposes to bring the wording of this article into line with the wording of articles 6785 and 6808 as well with that of the new article 6636.1, as indicated below. At the same time, any reference to Policy T-3 will be removed from article 6776.

Article 6785 — Daily Price Limit

Article 6785 can be found in that section of Rule Six that deals with options on S&P/TSE sectorial indices. S&P/TSX

As is the case with article 6776, the Bourse proposes to amend the heading of article 6785 so that it will now be entitled “Triggering of a Circuit Breaker on the Underlying Interest”. The Bourse further proposes to bring the wording of this article into line with the wording of articles 6776 and 6808, as well as with that of the new article 6636.1. At the same time, any reference to Policy T-3 will be removed from article 6785.

Article 6808 — Price Limits / Trading Halts

Article 6808 appears in section D of Rule Six, which deals with trading in futures contracts.

Currently, article 6808 contains two references to Policy T-3, i.e., in subparagraphs 6808 e) i) and 6808 f) i), the wording of which is identical. It is therefore suggested that the heading and wording of these subparagraphs, along with those of paragraph 6808 g) dealing with international share futures contracts, be brought into line with the heading and wording proposed for articles 6776 and 6785 and the new article 6636.1.

Section 6780 – 6800 — Options on S&P/TSE Sectorial Indices

As this section currently includes articles 6780 to 6788, and because the section thereafter in Rule Six, entitled “Section 6790-6799” and dealing with currency options, begins at article 6790, the Bourse intends to amend the heading of this section accordingly. This section will therefore be retitled “Section 6780-6789”.

The Bourse also proposes to update all references to the S&P/TSE sectorial index contained in this section, i.e., the references found in the heading of the section as well as in articles 6780 (Application of Specific Rules), 6781 (Nature of Options), 6785 (Daily Price Limit) and 6788 (Trading Halts or Suspensions). The proposed amendments will replace the expression “S&P/TSE” with “S&P/TSX”.

Furthermore, the Bourse wishes to take the opportunity to correct the reference to article 6376, which appears in paragraph 6788 D), the reason being that the relevant article for the purposes of the pre-opening stage referred to in paragraph 6788 D) is really article 6375. Finally, the Bourse

proposes to bring the order of the paragraphs and subparagraphs of article 6788 into line with those of article 6779 in view of the similarity in the wording between these two provisions.

Addition of New Article 6636.1 — Triggering of a Circuit Breaker on the Underlying Interest

Currently, provisions in Rule Six relating to the triggering of a circuit breaker deal only with S&P/TSX 60 Stock Index Options (SXO), options on the S&P/TSX sectorial indices and futures contracts on the S&P/TSX 60 indices and on Canadian shares. As part of the current update, the Bourse proposes to add article 6636.1, which will be included in the section of Rule Six that deals with trading in options.

This new article will adopt a wording similar to that of articles 6776 and 6785 as well as that of subparagraphs 6808 e) i), 6808 f) i) and 6808 g) i), upon completion of the amendments proposed above [*does the author perhaps mean “in accordance with the amendments proposed above?”*], in respect of stock options, options on exchange-traded fund units and options on income-trust units.

D) Public Interest

Since the purpose of the regulatory amendments proposed in this analysis is to update those provisions of the Bourse’s regulations that apply upon the triggering of a market-wide circuit breaker on the underlying interest, the Bourse considers these amendments to be of public interest.

E) Impact of the Proposed Amendments on the Systems

The Bourse considers that the regulatory amendments proposed in this analysis will have no impact on the systems as regards approved participants, their approved persons, their clients or the public at large.

F) Interest of the Financial Markets

The Bourse is of the opinion that the regulatory amendments proposed in this analysis will not in any way adversely affect the interests of the financial markets.

G) Other Alternatives Considered

No other alternatives were considered by the Bourse.

III COMMENTS

A) Efficiency

As previously mentioned, the main objective of the regulatory amendments proposed to be made to the Bourse’s Rule Six, referred to in this analysis, is to update those provisions of the Bourse’s regulations that apply upon the triggering of a market-wide circuit breaker on the underlying interest.

B) Process

The first stage in the approval process for the regulatory amendments discussed herein consists in having them approved by the Special Committee - Regulatory Division. These amendments will then be submitted to the Bourse's Rules and Policies Committee.

Once approved by the Special Committee - Regulatory Division and the Rules and Policies Committee of the Bourse, the proposed amendments, including this document, will be simultaneously published by the Bourse for a 30-day comment period and submitted to the *Autorité des marchés financiers* for the purposes of self-certification. The AMF will also publish the proposed amendments as well as the 30-day solicitation of comments in its weekly bulletin.

Finally a copy of the amendment proposal will be delivered to the Ontario Securities Commission for information purposes.

IV REFERENCES

- Rule Six of Bourse de Montréal Inc. — Trading
- Policy T-3 of Bourse de Montréal Inc. — Circuit Breaker
- Rules Notice No. 13-0059 published by the Investment Industry Regulatory Organization of Canada on 21 February 2013 -
- Notice issued by the U.S. Securities and Exchange Commission on 9 April 2013 (“Investor Bulletin: New Measures to Address Market Volatility”)
- U.S. Securities and Exchange Commission, Release No. 34-67090 dated 31 May 2012

POLICY T-3

CIRCUIT BREAKER

(28.03.91, 02.08.96, 03.02.97, 15.04.98,
07.09.99, 11.02.00, 31.01.01, 17.01.02, [abr. 00.00.00](#))

~~— In conjunction with The Toronto Stock Exchange, which will act in coordination with the New York Stock Exchange ("NYSE") and following a significant decline in the Dow Jones Industrials Average («DJIA»), Bourse de Montréal Inc. will halt trading in all securities in the following circumstances:~~

~~a) 10% decline in the DJIA~~

- ~~• Before 2:00 p.m., will result in an hour long halt;~~
- ~~• Between 2:00 p.m. and 2:30 p.m., will result in a 30 minute halt;~~
- ~~• After 2:30 p.m., will not result in a halt. The market will remain open.~~

~~b) 20% decline in the DJIA~~

- ~~• Before 1:00 p.m., will result in a two hour long halt;~~
- ~~• Between 1:00 p.m. and 2:00 p.m., will result in an hour long halt;~~
- ~~• After 2:00 p.m., will result in a halt for the balance of the day.~~

~~c) 30% decline in the DJIA~~

- ~~• The halt will be maintained for the balance of the day.~~

~~d) When required the reinstatement of trading shall be coordinated with The Toronto Stock Exchange, which will itself act in coordination with the NYSE.~~

~~e) The thresholds applied for the trading halts are to be adjusted on a quarterly basis according to an average daily closing calculation of the DJIA for the previous month. This information will be communicated to the approved participants of the Bourse by circular on a quarterly basis.~~

~~f) Derivatives Instruments~~

~~(07.09.99, 11.02.00, 31.01.01, 17.01.02)~~

~~— This Policy will not apply to listed derivatives instruments with the exception of Canadian and American equity based derivatives instruments.~~

Section 6201 - 6210
Trading Sessions of The Exchange

6201 Daily Trading Sessions(03.07.87, 10.10.91, 05.12.97, 02.10.98, 22.11.99, 00.00.00)

- a) Except as may be otherwise determined by the ~~Governing Committee~~Bourse, ~~meetings of the members, known as "Trading Sessions"~~ shall be held on the ~~Exchange~~Bourse every day except Saturdays, Sundays and holidays.
- b) If certain urgent events require it, market opening and closing times are established, ~~in the following order~~, by: the Bourse.
- ~~1° the Governing Committee;~~
- ~~2° the Executive Committee;~~
- ~~3° the Chairman or the Vice Chairman of the Governing Committee together with the President of the Exchange, or in his absence the Acting President.~~

These times may be different for each category of listed products. An advance notice must be given to ~~members~~approved participants of any changes.

6202 Proceeding at Trading Sessions(10.10.91, abr. 00.00.00)

~~Trading sessions of the Exchange shall be open for business on the sounding of the opening signal and shall remain open until the sounding of the closing signal. No transactions may be effected before the opening signal or after the closing signal.~~

6203 Suspension of Trading Sessions(10.10.91, 00.00.00)

- a) ~~When urgent circumstances warrant it, the Chairman, or the Vice Chairman, or the President, or in the absence of all of them, the acting President,~~Bourse may suspend trading for one trading session or any part of a trading session ~~and shall, if so directed by a resolution of the Governing Committee close the Exchange for such number of consecutive trading sessions not exceeding twenty one (21) as may be specified in such resolutions.~~
- b) ~~For the purpose of the application of Policy T-3 on "circuit breakers", the Director of Market Surveillance or the Vice President, Floor Operations, may suspend trading, in conformity with the provisions of Policy T-3.~~

6204 Delayed, Halted and Suspended Trading(10.10.91, 22.11.99, abr. 00.00.00)

- a) ~~When, in the opinion of the Exchange, important information concerning a listed security has not been made public, an important announcement is pending or in any situation which would render the market unfair to shareholders and investors, the Exchange may delay, halt or suspend trading in any Exchange listed security.~~
- b) ~~Where a halt or delay in trading is rescinded during a trading session, notice of the rescission of the halt or delay and the time set for resumption of trading shall be displayed on CDNX.~~

Section 6621 - 6650**Trading - Options****6636.1 Triggering of a Circuit-Breaker on the Underlying Interest**(00.00.00)

Trading halts on equity, exchange-traded funds or income trust units options shall be coordinated with the trading halt mechanism of the underlying interest.

OPTIONS ON THE S&P/TSX 60 STOCK INDEX**Section 6771 - 6779****Specific Rules Concerning the Contract Specifications**(07.09.99, 18.12.12, 00.00.00)**6776 Daily Price Limit Triggering of a Circuit-Breaker on the Underlying Interest**(07.09.99, 29.04.02, 18.12.12, 00.00.00)

~~The Bourse will halt trading~~ Trading halts on options on the S&P/TSX 60 Stock Index shall be coordinated with the trading halt mechanism of the underlying interest in accordance with the Circuit Breaker Policy (T-3) of the Bourse.

OPTIONS ON S&P/TSE~~X~~ SECTORIAL INDICES**Section 6780-~~6789~~6800****Specific Rules Concerning the Contract Specifications**(31.01.01, 00.00.00)**6780 Application of Specific Rules**(31.01.01, 00.00.00)

In addition to articles 6571-6700 of the Rules, options on S&P/TSE~~X~~ sectorial indices shall be subject to the Rules contained in this section.

6781 Nature of options(31.01.01, 00.00.00)

A buyer of one S&P/TSE~~X~~ sectorial 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/TSE~~X~~ sectorial index on the expiration date, as provided for in article 6676 b) of the Rules.

The seller of one S&P/TSE~~X~~ sectorial 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/TSE~~X~~ sectorial index on the expiration date, as provided for in article 6676 b) of the Rules.

6785 ~~Daily Price Limit~~ Triggering of a Circuit-Breaker on the Underlying Interest

(31.01.01)

~~The Exchange will halt trading~~ Trading halts on options on the S&P/TSE~~X~~ sectorial indices shall be coordinated with the trading halt mechanism of the underlying interest in accordance with the Circuit Breaker Policy (T 3) of the Montreal Exchange.

6788 Trading Halts or Suspensions(24.09.01, 00.00.00)

A) Trading on the Bourse in an option on S&P/TSE~~X~~ sectoriel 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 S&P/TSE~~X~~ sectorial index class:

- i) for options on S&P/TSE~~X~~ sectorial index, the extent to which trading is not occurring in stocks underlying the index;
- ii) for options on S&P/TSE~~X~~ sectorial 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)~~ Trading in options on S&P/TSE~~X~~ sectorial 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)~~ Once trading resumes, the pre-opening stage shall be done in accordance with article 6376~~5~~ of the Rules.

D. SPECIAL RULES FOR TRADING FUTURES CONTRACTS**Section 6801 - 6820
Terms of Trade Futures****6808 Price Limits / Trading halts**

(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 24.07.06, 30.05.08, 17.04.09, 15.05.09, 18.06.10, 16.02.12, 00.00.00)

The Bourse shall establish for each contract a maximum price limit with respect to the previous day's settlement price and there shall be no trading above or below that limit except as provided below. Unless otherwise determined by the Bourse, the daily price limits shall be as follows:

- a) 30-day overnight repo rate futures: NIL
- b) Overnight Index Swap futures: NIL
- c) 1-month and 3-month Canadian bankers' acceptance futures: NIL
- d) Government of Canada Bond futures: NIL
- e) Futures contracts on the S&P/TSX Indices:

- i) ~~Trading halts~~ Triggering of a Circuit-Breaker on the Underlying Interest

Trading halts on the futures contracts on the S&P/TSX Indices shall be coordinated with the trading halt mechanism of the underlying interest. ~~In accordance with Policy T-3 of the Bourse entitled "Circuit Breaker", a trading halt of the futures contracts shall be triggered only in conjunction with the triggering of circuit breakers set in coordination with the New York Stock Exchange and The Toronto Stock Exchange.~~

- ii) Resumption of Trading

In the event that trading in the securities market resumes after a trading halt, trading in the S&P/TSX Index futures contracts shall resume only after a percentage (as determined by the Bourse from time to time) of the stocks interest underlying the S&P/TSX Indices have re-opened.

f) Canadian share futures contract

i) ~~Trading halts~~ Triggering of a Circuit-Breaker on the Underlying Interest

Trading halts on Canadian share futures contract shall be coordinated with the trading halt mechanism of the underlying interest. ~~In accordance with Policy T-3 of the Bourse entitled "Circuit Breaker", a trading halt of the futures contract shall be triggered in conjunction with the triggering of circuit breakers set in coordination with the New York Stock Exchange and The Toronto Stock Exchange.~~

g) International share futures contract

i) Triggering of a Circuit-Breaker on the Underlying Interest

Trading halts on international share futures contract shall be coordinated with the trading halt mechanism of the underlying interest.

In the event that a recognized exchange suspends trading in the underlying share interest of an international share futures contract, then the Bourse may determine a course of action in relation to the share futures contract, including, but not limited to, the suspension or halting in the trading of the contract.

h) Futures contract on carbon dioxide equivalent (CO₂e) units with physical and cash settlement

NIL

i) Futures contracts on Canadian Crude Oil

NIL