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CIRCULAR 037-17
March 21, 2017

REQUEST FOR COMMENTS

AMENDMENTS TO ARTICLE 6651 OF BOURSE DE MONTREAL INC. REGARDING POSITION LIMITS FOR OPTIONS ON EQUITY-HOLDING EXCHANGE-TRADED FUNDS

The Rules and Policies Committee and the Special Committee of Bourse de Montréal Inc. (the "**Bourse**") have approved amendments to Article 6651 of the Bourse changing the position limits for physically-settled options on equity-holding exchange-traded funds.

Comments on the proposed amendments must be submitted, at the latest on **April 24, 2017**. Please submit your comments to:

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Chief Legal Officer, MX, CDCC
Office of the General Counsel
Bourse de Montréal Inc.
Tour de la Bourse
800 Victoria Square, P.O. Box 61
Montréal, Québec H4Z 1A9
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A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M[e] Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22[nd] Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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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.

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 Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

Regulatory Amendment Process

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization ("SRO") by 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 the Rules, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter 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. 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.

AMENDMENTS TO ARTICLE 6651 OF BOURSE DE MONTREAL INC. REGARDING POSITION LIMITS FOR OPTIONS ON EQUITY-HOLDING EXCHANGE-TRADED FUNDS

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I. SUMMARY

Bourse de Montréal Inc. (the "**Bourse**") is proposing to change how position limits for physically-settled options on equity-holding exchange-traded funds (''**ETFs**'') are set. Equity-holding ETFs are defined as ETFs for which all of the components are exchange-traded equities (for the purposes of this analysis, referred to as "**Equity ETFs**"). Currently, position limits for all ETF options, including Equity ETFs, are determined in accordance with the same methodology as options on equities[1], which is based on the most recent inter-listed 6-month trading volume of the underlying share/ETF units, or a combination of the most recent inter-listed 6-month trading volume of underlying share/ETF units and the amount of share/ETF units currently outstanding.

For the reasons expressed in this analysis, the Bourse believes that the trading volume of the underlying ETF units or the number of ETF units outstanding are not the most appropriate criteria to set position limits on ETF options. As a consequence, the current methodology results in positions limits that may not be appropriate and which may potentially unduly impact the ETF options market, including its liquidity. Given that the Bourse and its Regulatory Division (the "**Division**") have noticed that this methodology is currently imposing unnecessary constraints on the market and its participants, the Bourse is proposing to double the position limit levels yielded by the current methodology as a temporary, immediate solution to these constraints, while the Bourse completes a more holistic review of its approach to position limits, including for Equity ETF options. While this proposal is a palliative to the conceptual issues discussed in this analysis with the current methodology with respect to Equity ETF options, it does provide a conservative approach to resolving the limitation of the current methodology.

II. ANALYSIS

a. Background

Purpose and Role of Position Limits

ETF options were first launched on the Bourse in 2001 and are currently the most actively traded option classes on the Bourse in terms of average daily volume ("ADV"), as illustrated in the following table:

[1] Except for the option class on XIU which is subject to a position limit of 300,000 contracts.

Year	Equity options			ETF options			
	Annual volume (millions)	Number of option classes	Average annual volume per class (thousands)	Annual volume (millions)	Number of option classes	Average annual volume per class (thousands)	New ETF options launched
2001	5.2	86	60	0.1	1	125	XIU
2002	6.2	75	83	0.2	1	237	
2003	6.3	65	98	0.3	5	54	XGD, XIT, XFN, XEG
2004	8.3	71	117	0.3	5	59	
2005	9.4	83	113	0.6	5	124	
2006	11.4	123	93	0.8	6	141	XMA
2007	12.6	156	81	0.8	6	131	
2008	14.6	165	89	1	9	113	COW, HXD, HXU
2009	14.5	181	80	2.8	27	103	HGD, HGU, HFD, HFU, HED, HEU, XCB, XDV, XIC, XRE, XIN, XSP, XSB, HOD, HOU, GAS, HND, HNU
2010	16.3	238	69	3.3	30	110	HIX, ZCN, CGL
2011	24.2	283	86	3.9	32	120	ZEB, HXT
2012	24.2	308	78	4.4	33	133	XSU
2013	21.3	313	68	2.9	31	94	Removal of COW and XRE
2014	20.7	304	68	4.1	31	131	
2015	21.5	303	70	8.7	48	181	ZUT, ZUH, ZUB, ZRE, ZEO, ZUE, ZQQ, ZPR, ZLU, ZLB, ZHY, ZFL, ZEQ, ZDV,

Year	Equity options			ETF options			
	Annual volume (millions)	Number of option classes	Average annual volume per class (thousands)	Annual volume (millions)	Number of option classes	Average annual volume per class (thousands)	New ETF options launched
							ZDM, IGT, ZRE
2016	25.3	302	84	11.7	47	249	Removal of IGT

The significant volume growth of these options has shed light on some limitations with the methodology currently used to determine position limit levels on ETF options. Notably, the Division has seen an increase in position limits exemption requests from hedgers or instances where they are close to exceeding the applicable limits. These developments in the last year or so has lead the Bourse to examine how ETF position limits are set and investigate whether the current limits are still appropriate.

Exchanges and/or regulators establish position limits on derivatives contracts as a tool to foster fair and orderly markets and prevent disrupting the underlying market as well as market abuse. More specifically, position limits are used as a tool to prevent the undue control and potential manipulation of the derivatives or underlying market by one or a few participants, and to limit excessive speculation and potential disruption of the options market itself.

While position limits play an important role to foster fair and orderly markets, setting position limits at an appropriate level is of paramount importance to avoid unintended adverse impacts on the markets that position limits are meant to protect. Notably, position limits that are unnecessarily low may hinder liquidity, affect activity in and development of the product, and prevent the development of an efficient market, which in and of itself is the most effective prevention against market abuse. Position limits that are too low may also prevent legitimate activity in the product by larger players with significant investment and hedging needs, such as pensions funds, who would be forced to resort to the over-the-counter ("**OTC**") market to fulfill those needs, thereby preventing the on-exchange market transparency and price discovery mechanisms to play the role they should for the overall market.

Given its responsibilities to operate in a manner as to counter market abuse and manipulation, fraud and deceptive trading[2] and to foster fair and orderly markets in the public interest, the Bourse is therefore committed to establishing position limits at a level that is low enough to ensure such limits are effective at preventing market abuse, but also high enough to avoid unintended and unjustified adverse impacts on the market.

This is also in line with the rationale raised by US options exchanges or self-regulatory organization and approved by the Securities and Exchange Commission ("SEC") in the context of increasing position limits for some specific ETF options in the US in the recent years. For example, the SEC release approving

[2] Article 41, Derivatives Act, chapter I-14.0.s

FINRA's rule change to increase SPY option limit from 300,000 to 900,000 contracts in 2011[3] pointed to the danger that restrictive option position limits prevent large customers (e.g., mutual funds) from using options to gain meaningful exposure to and hedging protection through the use of these options and could also result in lost liquidity in both the options and equity markets.

Particularities of ETF

ETF are relatively new compared to equities and options on ETFs are even more recent. Since options on ETFs were launched, their position limits have traditionally been determined in accordance to the same methodology as equity options. ETF units indeed present similarities with equities: they are stand-alone securities that can be traded on exchange. However, contrary to stocks which are issued by the issuer and therefore are limited to the number of outstanding shares at any point in time, ETFs are managed securities that can be freely created or redeemed by the holders using their component stocks. At any time, units can be issued or redeemed by market participants. ETF unit creation occurs when a participant converts its stocks composing the ETF into ETF units. Conversely, the redemption implies that ETF units are returned to obtain the basket of stocks comprising the ETF units.

The process of creating ETF units is only constrained by the availability of the constituent stocks. In theory, the number of ETF units that can be created and outstanding on the market can be estimated by assuming that all ETF component stocks are converted into ETF units. However, in practice, the number of ETF units in existence on the market is significantly smaller than that. For example, the 536M XIU units currently outstanding[4] represent less than 1% of the maximum number of XIU units that could be created if all constituent stocks were handed in for conversion.

Therefore, market participants required to deliver ETF units to a counterparty upon exercise would not be limited to buy the ETF units on the open market. They could alternatively buy the constituent stocks, if they don't already hold them, and ask the manager to convert them into ETF units. This shows how restricting the holding of ETF options based in whole or in part on the volume of the ETF units and/or the number of ETF units outstanding is flawed. Until the ETF, and consequently the ETF options, gained in popularity, this issue had not attracted attention since market participants did not use ETF options to a level where current position limits caused problems. Now that ETF and ETF options usage have become more prevalent in the Canadian market and internationally, and that this trend seems to be continuing[5], the limitations of the current methodology to set position limit levels for these products have emerged and need to be addressed.

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[3] See SEC Release No. 34-65086; File No. SR-FINRA-2011-036.

[4] https://www.blackrock.com/ca/individual/en/literature/fact-sheet/xiu-ishares-s-p-tsx-60-index-etf-fund-fact-sheet-en-ca.pdf, as of February 10, 2017.

[5] The evolution of the ETF industry, January 31, 2017, at http://www.pionline.com/article/20170131/ONLINE/170139973/the-evolution-of-the-etf-industry

b. Description and Analysis of Market Impacts

The Bourse believes that its rules should be construed to avoid influencing market participants' choices in terms of product usage. The rules of the Bourse should not dissuade market participants to invest in options on ETFs. The Bourse believes that the current methodology may have this unintended effect. Indeed, the equity market offers market participants wishing to replicate various investment themes the possibility to use baskets of equities or ETF. However, the current methodology used by the Bourse to set position limit levels for these products results in different opportunities for equity holders compared to ETF holders. The examples discussed below illustrate how the current methodology impacts the market.

- Prevents equivalent position taking capabilities

Market participants take positions in ETF options for hedging or directional purposes.

The US options exchanges in their filings to the Securities and Exchange Commission ("**SEC**") for the elimination or increase of certain ETF option limits[6] have exposed the following principle:

> *"Further, because the creation and redemption process for the underlying SPY ETF allows large investors to transfer positions from a basket of stocks comprising the S&P 500 index to an equivalent number of ETF shares (and the reverse) with relative ease, there is no reason to disadvantage options overlying the one versus the other."*[7]

The Bourse considers that this principle of equivalence is highly relevant for its markets as well. As per this principle, the Bourse considers that market participants investing in equities or in equity-holding ETFs should be offered comparable opportunities when exposed to equivalent market risk and that these opportunities should be subject to similar exemption conditions. More explicitly, the Bourse considers that two market participants with the same invested amounts, one holding all stocks comprising an index and the second holding an ETF that tracks the same index, should be allowed to hedge their portfolios up to the comparable thresholds without exceeding the options position limits that apply to the securities they hold in their portfolios, or, in the case where they need to exceed the applicable limits, they both exceed such limits with similar size hedging positions, subject to the same exemption requirements.

Under the current ETF option position limit methodology, the market participant's hedging and investment capabilities may be curtailed.

The following table considers several examples of portfolios composed of $10B in assets specialized in the broad index (S&P/TSX 60) or sector sub-indices (REIT, Financial, Energy, Materials, Banking). The

[6] Discussed in more details in the Section Comparative Analysis below.

[7] See SEC Release No. 34-67999; File No. SR-Phlx-2012-122 and SEC Release No. 34-66984; File No. SR-NYSEAmex-2012-29.

portfolios are holding the index component stocks or units of ETFs tracking the same index. Those examples demonstrate that a portfolio using ETFs will be under hedged compared to a similar portfolio holding the constituent stocks.

Portfolio Assets Under Management: $10B			
Portfolio theme	**Securities in portfolio**	**% of portfolio that could be hedged with equity options**	**% of portfolio that could be hedged with ETF options**
S&P/TSX 60 index	Equities (index components)	100.00%	
	ETFs (XIU)		5.00%
REIT sector index	Equities (index components)	25.00%	
	ETFs (XRE)		1.20%
Financial sector index	Equities (index components)	80.00%	
	ETFs (XFN)		2.50%
Energy sector index	Equities (index components)	28.00%	
	ETFs (XEG)		3.00%
Materials sector index	Equities (index components)	92.00%	
	ETFs (XMA)		0.27%
Banking sector index	Equities (index components)	65.00%	
	ETFs (ZEB)		1.80%

As for the following table, it compares the amounts that can be invested through equity or ETF options in various market or sector indexes.

Index portfolios			
Portfolio theme	**Securities in portfolio**	**Maximum amount to be invested under equity option position limits ($B)**	**Maximum amount to be invested under ETF option position limits ($B)**
S&P/TSX 60 index	Equities (index components)	$10.0 B	
	ETFs (XIU)		$0.50 B
REIT sector index	Equities (index components)	$2.5 B	
	ETFs (XRE)		$0.12 B
Financial	Equities (index	$8.0 B	

Index portfolios			
Portfolio theme	**Securities in portfolio**	**Maximum amount to be invested under equity option position limits ($B)**	**Maximum amount to be invested under ETF option position limits ($B)**
sector index	components)		
	ETFs (XFN)		$0.25 B
Energy sector index	Equities (index components)	$2.8 B	
	ETFs (XEG)		$0.30 B
Materials sector index	Equities (index components)	$9.2 B	
	ETFs (XMA)		$0.027 B
Banking sector index	Equities (index components)	$6.5 B	
	ETFs (ZEB)		$0.18 B

Market participants wishing to use ETF options to hedge or manage the risks of their portfolio are limited by lower position limits and, as such, they may be required to request an exemption to allow for a limit in excess of the prescribed limit available for hedging or risk management purposes. For the same exposure, it is unclear why participants holding ETFs should need position limit exemptions while participants holding stocks would not. Similarly, the market participant wishing to reduce costs of directional investing by investing through options on the market indexes or sector indexes should not be required to request and monitor position limit exemption simply because it chose to invest through ETF rather than directly holding the stocks. By imposing a further burden on participants to hold ETF options compared to stock options, the Bourse believes its rules might be unnecessarily influencing market participants' choice between those two products.

- Limits an appropriate dynamic adjustment of ETF option position limits

Assume an ETF has 120 million units outstanding and 30 million units traded over the last six months. According to the current methodology, the position limit for this ETF option is 75,000 contracts. Also assume that the existing ETF units reflect only 1% of the maximum number of units that could be created if all component stocks were redeemed.

Next, assume a market participant holds component equities sufficient to make up 120 million ETF units (above and beyond the existing 120 million ETF units). If the market participant decides to hand the equities in and obtain the 120 million ETF units, the number of outstanding ETF units would double almost instantaneously. This, however, would not mean that the traded volume doubles equally.

If the market participant decides to hold its ETF units for a long term period, the newly created ETF units would not appear on the market, and the average daily volume would, most likely, remain unchanged. Given that the traded volume may remain unchanged at 30 million over six months, the current methodology would never take the position limit to the next tier and it would continue to limit the ETF options positions to 75,000 contracts.

If the market participant would periodically rebalance its portfolio and trade some of its new ETF units, the average daily volume would gradually increase. Given that the current methodology considers the last six months' traded volume, it would take several months until the rolling six months traded volume would increase and take the option position limit to the next level.

An opposite action could equally adversely impact market participants. For example, let's consider a market participant holding 7.5 million ETF units (which represents about 6% of all outstanding ETF units) and intending to hedge all of its position with ETF options. If another ETF holder owning 10 million ETF units decides to redeem his units into shares, the total number of ETF units will equally drop from 120 million to 110 million. This would relegate the ETF from one tier to the other and prompt the reduction of the ETF options position limit from 75,000 contracts to 50,000 contracts (or the equivalent of 5 million ETF units). In this scenario, the holder of the 7.5 million ETF units who hedged its position with 75,000 option contracts would be forced to reduce the hedging position by one third (from 75,000 contracts to 50,000 contracts) and suddenly expose itself to substantial risk, even though no transactions were made in his ETF portfolio.

Compared to the equity market, the dynamic adjustment of equity options position limits is less of an issue considering that total outstanding shares of the underlying will generally not vary, except in case of special transactions initiated by the issuer like share buy-back, new issuances, or shares split. Therefore, the current methodology in terms of dynamic adjustment is less of an issue for stock options.

- Limits market efficiency

The continuous development of the ETF cash and options markets is expected to bring many benefits to the overall securities markets, among which the increase of instruments offered to investors and the migration of some of those investors from OTC to on-exchange transactions.

In addition, the equity market, the equity derivatives market, the ETF market and the ETF derivatives markets are tightly intertwined: through the creation, redemption and arbitrage of ETF units, one market's liquidity directly influences the liquidity of the others.

From this perspective, position limits that prevent similar market exposure through ETF compared to equity encourages flight of transactions to the OTC market and offers limited support to the development of liquidity in new ETF options.

Indeed, market participants wishing to invest or hedge with ETF options may be encouraged to make such transactions on the OTC market given the impact of the current position limits. Their migration to the OTC market is detrimental to the general market on several levels: it increases the risk of poor liquidity on-exchange in times of higher market volatility, it inhibits price discovery (given the lack of dissemination of information regarding the OTC market), it curbs the monitoring of position limits on derivatives (OTC positions are not subject to any position limits) and, generally, it does not favor the development of a vibrant and liquid on-exchange ETF options market to the benefit of the overall market.

In addition, any new ETF's traded volume is likely to remain thin during the ramp up period, thereby corresponding to a low option position limit according to the current methodology, regardless of the fact that the ETF's components may have been trading for a long time and may be very liquid. Consequently, market participants interested in the new ETF and needing options to hedge their exposure may be dissuaded from entering the market and using the new ETF.

c. Comparative Analysis

The Bourse's current approach to position limits for equity and ETF options is based on the same traditional approach as the US options exchanges. The Bourse's position limits for ETF options are currently calculated with the methodology used for determining equity option position limits. This methodology consists of five tiers based on the volume traded over the last six months and the number of ETF outstanding units, except for the option class on XIU which is subject to a position limit of 300,000 contracts. ETF option position limits are recalculated on a quarterly basis and are published via circular by the Division. Currently, article 6651 of the Rules of the Bourse provides that the applicable positions limits for options are as follows:

"a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;

b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

f) 300,000 contracts for options on the following exchange-traded funds: - units of the iShares S&P/TSX 60 Index Fund (XIU)."

Similar option position limit methodology and associated levels have traditionally been used and are still widely used by all US option exchanges to establish the position limits on options.

Faced with the same reality as the Bourse with respect to the growing use of ETFs in the last few years, US options exchanges have increased ETF options position limits on a per class basis. Indeed, for given ETF options, US options exchanges have either adopted a fixed position limit higher than the limits obtained through the current methodology or, for certain broad based indexes, are currently undergoing a pilot project of imposing no position limit at all[8].

Indeed, rather than maintain the position limit exemption process, several US exchanges have proposed to increase or eliminate option position limits on certain ETF, which has since been approved by their regulators. For example, position limits on SPY options, the underlying of which is the largest ETF tracking the S&P 500, have been completely removed as part of a pilot program running since August 2012[9]. Furthermore, position limits on QQQQ options, the ETF tracking the Nasdaq Composite, have been increased from 300,000 contracts to 900,000 contracts[10].

Elsewhere globally, the European and Australian options exchanges have generally chosen not to apply any position limits for ETF options, except for EUREX which has set position limits. While to the Bourse's knowledge, EUREX does not disclose how it set the level of its position limits, published limits seem to vary between 20% and 30% of outstanding ETF units.

Therefore, the current international approach to ETF options limits can be summarized as follows[11]:

[8] The pilot program eliminating position and exercise limits for physically-settled options on the SPDR S&P 500 ETF Trust (SPY) started on August 15, 2012 (see SEC Release No. 34–67672; File No. SR– NYSEAmex–2012–29) and has been regularly renewed over the years since. It is currently set to expire on July 12, 2017 (see for example SEC Release No. 34–78295; File No. SR–ISE– 2016–16).

[9] Ibid. The position limit applicable before the implementation of the pilot program was 900,000 contracts on the same side of the market.

[10] See for example, SEC Release No. 34–51317; File No. SR–BSE– 2005–10.

[11] See rules references attached.

Options exchanges	General position limit methodology for ETF options	ETF options with higher or no limits
EUREX	Set limits published by the exchange - published limits seem to vary between 20% and 30% of outstanding ETF units	
Euronext[12]	No limits	
ICE	No limits	
All US options exchanges[13]	Limit grid based on outstanding ETF units and traded volume	SPY: no limit; QQQQ: 900,000 contracts; IWM: 500,000 contracts; EEM: 500,000 contracts; DIA: 300,000 contracts
ASX	No limits	

d. Proposed Amendments

Given the comparative analysis, the Bourse believes that as a first step, until it reviews holistically its approach to options position limits, it is not ready to move to a no position limits approach or to significantly increase position limits for its ETF options as other global exchanges have done. However, given that for the reasons expressed in this analysis, the Bourse acknowledges that its current methodology yields position limits that are too low, at least for Equity ETF options, the Bourse proposes to adopt a limit equivalent to two times the level resulting from the current methodology. While the Bourse acknowledges that this does not resolve the conceptual issues described in this analysis with respect to the current methodology, it does address the constraints currently unduly affecting the market. Given current ETF options volumes traded and the information at the disposal of the Division through its monitoring of position limits, large open positions and regarding position limits exemption requests, the Bourse believes this solution to be a conservative approach that will allow a temporary solution to the limitation associated with the current methodology while the Bourse undertakes a more comprehensive review of its approach to position limits in general, including for Equity ETF options.

The Bourse is convinced that this approach is conservative enough especially given that the number of ETF units outstanding on the market is significantly smaller than the number of ETF units that could theoretically be created by assuming that all ETF component stocks would be converted into ETF units. For example, the 570M XIU units currently outstanding[14] represent less than 1% of the maximum number of XIU units that could be created if all constituent stocks were handed in for conversion.

[12] Euronext operates four Euronext Derivatives Markets in Amsterdam, Brussels, Lisbon and Paris.

[13] AMEX, ARCA, BATS, BOX, C2, CBOE, EDGX, ISE Gemini, ISE, ISE Mercury, MIAX, MIAX Pearl, Nasdaq Options Market, Nasdaq OMX BX, Nasdaq PHLX. The same position limits apply across all US options exchanges and therefore, for the purpose of this comparative analysis, all US options exchanges are considered as one.

[14] https://www.blackrock.com/ca/individual/en/literature/fact-sheet/xiu-ishares-s-p-tsx-60-index-etf-fund-fact-sheet-en-ca.pdf, as of February 10, 2017.

Therefore, given that under this proposal position limit levels would still be set based partly at least on the number of ETF units outstanding, the Bourse is not concerned with the result of doubling the limits.

The following table lists the Equity ETF options currently listed on the Bourse, together with their current applicable limit (number of contracts) and the limit that the proposed new methodology would yield (number of contracts) for those Equity ETF options:

ETF Options	**Underlying index or industrial sector**	**Current limit (contracts)**	**Proposed limit**		
			(contracts)	As a % of outstanding ETF units	As a % of "total theoretical units"*
XIU	S&P/TSX 60	300,000	600,000	11%	0.11%
XIC	S&P/TSX Composite	75,000	150,000	13%	0.18%
ZCN	S&P/TSX Composite	50,000	100,000	9%	0.12%
XDV	Canadian dividend achievers	50,000	100,000	16%	0.16%
ZDV	Canadian dividend achievers	50,000	100,000	23%	0.23%
XRE	Canadian REITs	200,000	400,000	51%	1.47%
ZRE	Canadian REITs	25,000	50,000	24%	0.68%
XMA	Canadian Material sector	25,000	50,000	42%	0.25%
ZEB	Canadian banks sector	75,000	150,000	41%	0.43%
ZEO	Canadian Oil and gas sector	50,000	100,000	53%	0.11%
ZUT	Canadian utilities sector	25,000	50,000	45%	0.62%
XEG	Canadian Energy sector	250,000	500,000	62%	0.34%
XFN	Canadian Financial sector	75,000	150,000	47%	0.08%
XGD	Canadian Gold sector	250,000	500,000	88%	0.34%
XIT	Canadian Technology sector	25,000	50,000	125%	0.13%
ZLB	Canadian Low volatility stocks	50,000	100,000	23%	0.30%
ZSP	S&P 500 (US$)	200,000	400,000	42%	N/A
ZQQ	Nasdaq 100	25,000	50,000	63%	N/A
XSU	Russell 2000	50,000	100,000	45%	N/A
ZUE	S&P 500 (hedged in	25,000	50,000	16%	N/A

ETF Options	Underlying index or industrial sector	Current limit (contracts)	Proposed limit (contracts)	As a % of outstanding ETF units	As a % of "total theoretical units"*
	C$)				
XSP	S&P 500 Core	250,000	500,000	33%	N/A
ZDM	MSCI EAFE	50,000	100,000	23%	N/A
XIN	MSCI EAFE	50,000	100,000	19%	N/A

*The term "total theoretical units" represents the number of units that can be created if all outstanding shares of the component stocks are converted into ETF units.

III. AMENDMENT PROCESS

The significant growth of the ETF market and consequently the ETF options market in the recent years have brought to light some limitations of the current methodology for setting position limit levels for ETF options, most particularly Equity ETF options. The increased resources deployed by the Division to process and monitor either position limit exemption requests or instances where participants are close to exceeding the applicable position limit levels have led the Bourse to revisit the appropriateness of its current methodology. For the reasons expressed in this analysis, the Bourse has concluded that the current methodology yields limits that are too low and are not in the public interest.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed methodology will yield different position limits levels, but will not change in any way how the Division disseminates these limits. As a result, no technological impacts are expected for either the Bourse or the market participants. Market participants are invited to raise in their comments any technological impacts from their perspective that the Bourse may not have visibility on to assist the Bourse in the implementation of this proposal.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS

The Bourse believes that current experience with the trading of ETF options has made it appropriate to consider increasing the position limits of its ETF options, while still seeking to ensure that large positions in ETF options will not unduly disrupt the options or underlying cash markets. This analysis highlights conceptual issues with the current methodology for establishing position limits for Equity ETF options. This proposal seeks to address the unnecessary constraints that the current methodology imposes on the Equity ETF options market, while allowing the Bourse to consider its approach to position limits more holistically to address the conceptual issues of the current methodology.

VI. PUBLIC INTEREST

In a notice approving a proposed rule change by CBOE to increase the position and exercise limits for options on the Standard & Poor's 100 Stock Index, the SEC has previously stated:

> "Since the inception of standardized options trading, the options exchanges have had rules imposing limits on the aggregate number of options contracts that a member or customer could hold or exercise. These rules are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In particular, position and exercise limits are designed to minimize the potential for mini-manipulations and for corners or squeezes of the underlying market. In addition, such limits serve to reduce the possibility for disruption of the options market itself, especially in illiquid options classes.
>
> The Commission has been careful to balance two competing concerns when considering an Exchange's position and exercise limits. First, the Commission has recognized that <u>the limits must be sufficiently low to prevent investors from disrupting the underlying cash market</u>. Second, at the same time, the Commission has realized that <u>limits must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market-makers from adequately meeting their obligations to maintain a fair and orderly market.</u>"[15] [Our emphasis]

In accordance with this statement by the SEC, the Bourse believes that an optimal position limit level is one that balances the benefits of tighter limits against the costs of such limits. Limits are established to reduce market manipulation or undue market power; but the costs associated with restricting legitimate trading activity can thereby reduce risk management, price efficiency and the natural movements in demand and supply.

The Bourse, including its Division, considers that the proposed increase in position limits for Equity ETF options has no impact on its surveillance activities[16]. The Bourse believes that its proposal will foster market conditions that will enhance efficient on-exchange trading, without compromising fair and orderly markets, and is therefore in the public interest. The new position limit methodology for Equity ETF options will preserve market integrity and improve fairness by allowing these products to naturally evolve consistently with market demand and attract participants in need of these products to implement efficient strategies that are currently forced to resort to the more opaque OTC market.

[15] See SEC Release No. 34–39489; File No. SR–CBOE– 97–11.

[16] For example, see rule 14102 regarding Large Open Position Reporting requirements.

VII. EFFICIENCY

As a general rule, an efficient market is characterized by high liquidity, depth, tight bid/ask spreads, robust open interest, high volume and a large number of participants with different needs and objectives. Fostering such efficiency in the market will lead to greater level of transparency and better price discovery and formation, making this market a better and stronger tool to fulfil the needs of its participants.

The proposed changes can be expected to increase market efficiency as they will encourage more hedgers and speculators to join the market. The Bourse is of the opinion that more appropriate position limits will contribute towards a more level playing field by expanding the investment opportunities available to market participants who currently are not able to use the Equity ETF options in an effective way due to the low position limits. The exposure equivalence between the equity and the new ETF options position limits are likely to encourage more arbitrageurs to trade between the two markets. Having a greater pool of participants in the equity and ETF options markets is likely to result in deeper, more liquid and more efficient markets.

VIII. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and Special Committee and submitted to the Autorité des marchés financiers, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

- Global exchanges position limits rules references;
- Proposed amendments.

Comparative Analysis – Position Limits Rules References

<table>
<tr><th>Exchange</th><th>Rule</th><th>Reference</th></tr>
<tr><td>US Options exchange</td><td colspan="2">General rule to the same effect as the following, save for the exceptions mentioned below:
(a) The position limit shall be 75,000 contracts for options:
(i) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 40,000,000 shares during the most recent six-month trading period; or
(ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 30,000,000 shares during the most recent six-month trading period and has at least 120,000,000 shares currently outstanding.
(b) The position limit shall be 50,000 contracts for options:
(i) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 20,000,000 shares during the most recent six-month trading period; or
(ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 15,000,000 shares during the most recent six-month trading period and has at least 40,000,000 shares currently outstanding.
(c) The position limit shall be 25,000 contracts for all other options, except as provided in subsections (d) and (e), below.
(d) The position limit shall be 200,000 contracts for options:
(i) on underlying stock or Exchange-Traded Fund Share that had trading volume of at least 80,000,000 shares during the most recent six-month trading period; or
(ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 60,000,000 shares during the most recent six-month trading period and has at least 240,000,000 shares currently outstanding.
(e) The position limit shall be 250,000 contracts for options:
(i) on underlying stock or Exchange-Traded Fund Share that had trading volume of at least 100,000,000 shares during the</td></tr>
</table>

Exchange	Rule	Reference
	most recent six-month trading period; or (ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 75,000,000 shares during the most recent six-month trading period and has at least 300,000,000 shares currently outstanding. The Exchange will review the volume and outstanding share information on all underlying stocks and Exchange-Traded Fund Shares on which options are traded on the Exchange every six months to determine which limit shall apply. A higher contract limit will be effective on the date set by the Exchange, while any change to a lower limit will take effect after the last expiration then trading, unless the requirement for the same or a higher contract limit is met at the time of the intervening six-month review. However, if subsequent to a six-month review an increase in volume and/or outstanding shares would make a stock eligible for a higher position limit prior to the next review, the Exchange, at its discretion, may immediately increase such position limit. **Specific rules to the same effect as the following for these ETF options:** (f) The position limit for options contracts overlying the PowerShares QQQ Trust^{SM} Series 1 ("QQQQ") shall be 900,000 contracts and there shall be no position limit for options contracts overlying the SPDR® S&P 500® ETF ("SPY"). Position limits for options on SPY are subject to a pilot program through July 12, 2017. (g) The position limit for options overlying the iShares® Russell 2000® Index Fund (IWM) shall be 500,000 option contracts. (h) The position limit for options overlying the SPDR® Dow Jones Industrial AverageSM ETF Trust (DIA) shall be 300,000 contracts. (i) The position limit for options overlying the iShares MSCI Emerging Markets Index Fund (EEM) shall be 500,000 contracts.	
AMEX	Rule 904. Position Limits, Commentary .07.	http://wallstreet.cch.com/MKTTools/bookmark.asp?id=sx-policymanual-amex_904PositionLimits&manual=/MKT/Rules/mkt-rules/

Exchange	Rule	Reference
ARCA	Rule 6.8. Position Limits, Commentary .06.	http://nysearcarules.nyse.com/PCXTools/bookmark.asp?id=sx-policymanual-psx_6.8&manual=/PCX/PCXRules/PCX-rules/
BATS	Rule 18.7. Position Limits. (a) No Options Member shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Member has reason to believe that as a result of such transaction the Options Member or its Customer would, acting alone or in concert with others, directly or indirectly: (1) exceed the applicable position limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on BZX Options and the Chicago Board Options Exchange; or (2) exceed the position limit fixed by BZX Options from time to time for any options contract traded on BZX Options but not traded on the Chicago Board Options Exchange; or (3) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on BZX Options, when the Options Member is not an options member of the other exchange on which the transaction was effected. (b) Should an Options Member have reason to believe that a position in any account in which it has an interest or for the account of any Customer of such Options Member is in excess of the applicable limit, such Options Member shall promptly	http://cdn.batstrading.com/resources/regulation/rule_book/BATS_Exchange_Rulebook.pdf

Exchange	Rule	Reference
	take the action necessary to bring the position, into compliance.	
BOX	Rule 3120. Position Limits, IM-3120-2.	http://rules.boxoptions.com/browse/965df46c7b431000ada6001b7840a5b2010?searchid=17022710412510e5aabb29558546f3a3486eb751e32b01!0000000000!965df46c7b431000ada6001b7840a5b2010
C2	Chapter 4, Business Conduct. [NOTE: Incorporates by reference CBOE Rulebook Chapter IV. *See* CBOE Rule 4.11. Position Limits, Interpretations and Policies .02 and .07.]	http://www.c2exchange.com/publish/c2rules/c2rules.pdf
CBOE	Rule 4.11. Position Limits, Interpretations and Policies .02 and .07.	http://wallstreet.cch.com/CBOETools/bookmark.asp?id=sx-policymanual-cboe_4.11&manual=/CBOE/Rules/cboe-rules/
EDGX	Rule 18.7. Position Limits. (a) No Options Member shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Member has reason to believe that as a result of such transaction the Options Member or its Customer would, acting alone or in concert with others, directly or indirectly: (1) exceed the applicable position limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on EDGX Options and the Chicago Board Options Exchange; or (2) exceed the position limit fixed by EDGX Options from time to time for any options contract traded on EDGX Options but not traded on the Chicago Board	http://cdn.batstrading.com/resources/regulation/rule_book/EDGX_Rulebook.pdf

Exchange	Rule	Reference
	Options Exchange; or (3) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on EDGX Options, when the Options Member is not an options member of the other exchange on which the transaction was effected. (b) Should an Options Member have reason to believe that a position in any account in which it has an interest or for the account of any Customer of such Options Member is in excess of the applicable limit, such Options Member shall promptly take the action necessary to bring the position, into compliance.	
ISE Gemini	Chapter 4. Business Conduct. [NOTE: Incorporates by reference ISE Rulebook Chapter 4. *See* ISE Rule 412. Position Limits, Supplementary Material .01.]	https://www.ise.com/assets/gemini/documents/OptionsExchange/legal/rules/ISE_Gemini_Rules.pdf
ISE	Rule 412. Position Limits, Supplementary Material .01.	https://www.ise.com/assets/documents/optionsexchange/legal/rules/rules.pdf
ISE Mercury	Chapter 4. Business Conduct. [NOTE: Incorporates by reference ISE Rulebook Chapter 4. *See* ISE Rule 412. Position Limits, Supplementary Material .01.]	https://www.ise.com/assets/mercury/documents/OptionsExchange/legal/rules/ISE_Mercury_Rules.pdf
MIAX	Rule 307. Position Limits, Interpretations and Policies .01.	http://www.miaxoptions.com/sites/default/files/page-files/MIAX_Options_Exchange_Rules_01232017.pdf
MIAX Pearl	Chapter 3. Business Conduct. [NOTE: Incorporates by reference MIAX Rulebook Chapter 3. *See* MIAX Rule 307. Position Limits, Interpretations and Policies .01.]	https://www.miaxoptions.com/sites/default/files/page-files/MIAX_PEARL_Exchange_Rules_02062017B.pdf

Exchange	Rule	Reference
NASDAQ BX	Chapter III, Sec. 7. Position Limits. (a) No Options Participant shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Participant has reason to believe that as a result of such transaction the Options Participant or its Customer would, acting alone or in concert with others, directly or indirectly: (i) exceed the applicable position limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on BX Options and the Chicago Board Options Exchange (ii) exceed the position limit fixed by BX Options from time to time for any options contract traded on BX Options but not traded on the Chicago Board Options Exchange; or (iii) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on BX Options, when the Options Participant is not a member of the other exchange on which the transaction was effected; or (iv) exceed the applicable position limit fixed from time to time by PHLX with respect to U.S. Dollar-Settled Foreign Currency Options. (b) Should an Options Participant have reason to believe that a position in any account in which it has an interest or for the account of any Customer of such Options Participant is in excess	http://nasdaqbx.cchwallstreet.com/NASDAQBXTools/PlatformViewer.asp?selectednode=chp_1_2_3_6&manual=%2FNASDAQOMXBX%2Fmain%2Fbx-eq-rules%2F

Exchange	Rule	Reference
	of the applicable limit, such Options Participant shall promptly take the action necessary to bring the position into compliance..	
NASDAQ NOM	Chapter III, Sec. 7. Position Limits. (a) No Options Participant shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Participant has reason to believe that as a result of such transaction the Options Participant or its Customer would, acting alone or in concert with others, directly or indirectly: (i) exceed the applicable position limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on NOM and the Chicago Board Options Exchange or (ii) exceed the position limit fixed by NOM from time to time for any options contract traded on NOM but not traded on the Chicago Board Options Exchange; (iii) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on NOM, when the Options Participant is not a member of the other exchange on which the transaction was effected; or (iv) exceed the applicable position limit fixed from time-to-time by PHLX with respect to U.S. Dollar-Settled Foreign Currency Options. (b) Should an Options Participant have reason to believe that a position in any account in which it has an interest or for the	http://nasdaq.cchwallstreet.com/NASDAQTools/bookmark.asp?id=nasdaq-rule-options_IIIS7&manual=/nasdaq/main/nasdaq-optionsrules/

Exchange	Rule	Reference
	account of any Customer of such Options Participant is in excess of the applicable limit, such Options Participant shall promptly take the action necessary to bring the position into compliance.	
NASDAQ PHLX	Rule 1001. Position Limits.	http://nasdaqphlx.cchwallstreet.com/NASDAQPHLXTools/bookmark.asp?id=sx-policymanual-phlx_1001&manual=/nasdaqomxphlx/phlx/phlx-rulesbrd/
EUREX	§ 14 Position Limits. (1) The Board of Management of Eurex Deutschland or Eurex Zürich may set or alter position limits in order to ensure orderly futures and options trading and to avoid risks for the spot markets (Kassamärkte). Exchange Participants shall be notified of such determination of position limits allowing for a reasonable period of time. . . .	https://www.eurexchange.com/blob/294256/f95946021a6b176c6659655807714d8a/data/exchange_en_ab_2017_02_27.pdf
Euronext	The Bourse did not identify a general position limits rule for Euronext. Rule 8106 references position limits in the context of internal controls. 8106. Internal Controls. 8106/4. In respect of arrangements put in place by a Member pursuant to Rule 8106/3, the Member must be able to demonstrate to Euronext that the following monitoring requirements have been incorporated in the Member's risk control systems:	https://www.euronext.com/sites/www.euronext.com/files/harmonised_rulebook_en_2016_07_01_market_abuse_regime.pdf *See also*: https://www.eurexchange.com/blob/263160/ab2319f89e1c8d568617b83f3de7c263/data/er12228e.pdf-Attach-2.xls

Exchange	Rule	Reference
	(i) position limits; (ii) user definitions (i.e. the ability to define the individual user(s)); (iii) product definitions (i.e. the ability to restrict access to particular Admitted Financial Instruments or groups of Admitted Financial Instruments); (iv) maximum order size per user; and (v) either automatic order rejection when a limit is exceeded or the order being held subject to manual override by an appropriately authorised risk manager.	
ICE	Section P, P.3. Limits and Exemptions. (a) Limits on Contracts may be imposed at the discretion of the Exchange from time to time. The nature of the limits and the Contracts affected shall be notified to the Members from time to time: A Member shall not carry a position that exceeds the limits on behalf of any Person unless the Member has confirmed that such Person has received an exemption from the Exchange. All limits shall be calculated on a net futures-equivalent basis by product. Contracts to which Position Limits apply will include Contracts that aggregate into one or more source Contracts ("Combined Contracts"). Such Contracts and how they aggregate into a Combined Contract shall be published by the Exchange from time to time. The Exchange may require compliance with position Accountability Levels on a futures-only basis to the source Contracts into which other Contracts are combined.	https://www.theice.com/publicdocs/contractregs/24_SECTION_P.pdf

Exchange	Rule	Reference
	. . .	
ASX	Section 3, Trading Rules, Trading of Derivatives Market Contracts, Position Limits. [3400] ASX may set out in the Procedures (or otherwise notify to Trading Participants) a limit on the number of Derivatives Market Contracts in a Contract Series or Class which may be entered into or registered with an Approved Clearing Facility (either generally or in one or more Accounts or in respect of one or more persons). ASX will notify Trading Participants of a change to a Position Limit before the change becomes effective. [3401] A Trading Participant must not enter into a Derivatives Market Transaction if the registration of that Derivatives Market Transaction with an Approved Clearing Facility or entering that Derivatives Market Transaction will have the effect that a Position Limit is exceeded.	http://www.asx.com.au/documents/rules/asx_or_section_03.pdf

6651 Position Limits for Options and Share Futures Contracts
(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, 20.05.10, 25.06.12, 12.04.13, 04.06.15, 23.11.16, 00.00.00)

A) Except for those limits specified in article 6651, 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 positions (as defined under paragraph C) 4)) are as follows:

1. Share futures contracts, aggregated options and share futures contracts positions as well as options on stocks, exchange-traded funds or income trust units

   a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;

   b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

   c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

   d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

   e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

f) ~~300~~600,000 contracts for options on the following exchange-traded funds:

- units of the iShares S&P/TSX 60 Index Fund (XIU);

g) except for the specific limits provided for under paragraph f) above, for options 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 a) to e) above.

2. Debt options

   8,000 contracts.

3. Index options

   500,000 contracts.

4. Sector index options

   40,000 contracts.

5. 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.

6. 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.

7. 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, 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;

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

3. 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;

4. the "aggregated options and share futures contracts position" is obtained by first netting share futures contracts positions relating to the same underlying share interest and subsequently adding the net futures contracts position (net long or net short) to options positions relating to the same underlying share 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

1. For the purposes of this article the following defined hedges are approved by the Exchange:

   a) 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;

   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;

   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 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 sub-paragraphs D) 1. a) to D) 1. d), inclusive.

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) and b), 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.

E) Exemption

As described in Policy C-1, 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 on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member 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.

6651 Position Limits for Options and Share Futures Contracts
(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, 20.05.10, 25.06.12, 12.04.13, 04.06.15, 23.11.16, 00.00.00)

A) Except for those limits specified in article 6651, 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 positions (as defined under paragraph C) 4)) are as follows:

1. Share futures contracts, aggregated options and share futures contracts positions as well as options on stocks, exchange-traded funds or income trust units

   a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;

   b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

   c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

   d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

   e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income 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;

f) 600,000 contracts for options on the following exchange-traded funds:

- units of the iShares S&P/TSX 60 Index Fund (XIU);

g) except for the specific limits provided for under paragraph f) above, for options 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 a) to e) above.

2. Debt options

8,000 contracts.

3. Index options

500,000 contracts.

4. Sector index options

40,000 contracts.

5. 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.

6. 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.

7. 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, 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;

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

3. 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;

4. the “aggregated options and share futures contracts position” is obtained by first netting share futures contracts positions relating to the same underlying share interest and subsequently adding the net futures contracts position (net long or net short) to options positions relating to the same underlying share 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

1. For the purposes of this article the following defined hedges are approved by the Exchange:

   a) 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;

   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;

   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 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 sub-paragraphs D) 1. a) to D) 1. d), inclusive.

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) and b), 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.

E) Exemption

As described in Policy C-1, 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 on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member 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.