



CIRCULAR 158-20
September 18, 2020

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE EXPIRY CYCLES OF EQUITY INDEX, EQUITY, ETF AND CURRENCY OPTIONS

On September 17, 2020, the Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) approved amendments to the Rules of the Bourse in order to remove the concept of variable rotating expiry cycles for all Equity, ETF and Index Options and have one single consolidated listing expiry cycle for all options.

Comments on the proposed amendments must be submitted at the latest on **October 19, 2020**. Please submit your comments to:

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A copy of these comments shall also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^e Philippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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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. Unless specified otherwise, comments will be published anonymously by the Bourse.

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).

Process for Changes to the Rules

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization 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).



AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE EXPIRY CYCLES OF EQUITY INDEX, EQUITY, ETF AND CURRENCY OPTIONS

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I. DESCRIPTION

Bourse de Montréal Inc. (the “Bourse”) is proposing amendments to its rules pertaining to the expiry cycle of its equity products suite. The objective of the rule changes is to remove the concept of variable rotating expiry cycles for all Equity, ETF and Index Options so as to have one single consolidated listing expiry cycle for all options. This will ensure that share futures expiry cycles are aligned with Equity and ETF option cycles. S&P TSX 60 Index Options would be aligned with the quarterly cycle of the S&P TSX 60 Index Futures.

II. PROPOSED AMENDMENTS

The proposed amendments to articles 11.1, 11.101, 11.117, 11.201, 11.302, 11.401 and 11.502 of the Rules of the Bourse are attached.

III. ANALYSIS

a. Background

With the exception of Equity options, all products of Bourse always have one single expiry cycle. This Equity option expiry cycle has generally had 3 rotating rules called Cycle 1, Cycle 2 and Cycle 3, where the first cycle represents the first calendar month in each of the year’s quarter (January, April, July, October), the second cycle, the second calendar month in each quarter (February, May, August, November), and the third, the last calendar month in each quarter (March, June, September, December). The general principle behind this has been of historical purposes, of traditional legacy option technology platforms, data feed handlers and protocols, and general option market making resources. Infrastructure was limited to the number of equity option symbols that could be supported and that the distribution of Option expiry symbols was a form of load balancing the quarterly symbols further away from expiry that were less likely to trade. This has changed in the past 10 years when all North American Exchanges have increased tenfold the number of equity option symbols that are supported. Some important industry changes have been brought forward, one instrumental one was the overhaul to the external options to support a greater array of symbols and different Expiry patterns in the Option Symbology Initiative of 2010¹. Furthermore, global exchanges’ technology and infrastructure and Option market maker platforms have improved exponentially and the concept of having different distributed options cycles is simply not required. Finally, all North American Option Exchanges have branched out into listing weekly expiring options which are growing rapidly in overall volume.

b. Description and Analysis of Market Impacts

Based on Option class listings in Q1 2020, 87% of the Bourse’s options classes are situated within Cycle 1 (2 near term months + next 2 months from Jan, Apr, July, Oct cycle). This signifies that a majority of the Bourse’s share futures expiries (4 near term months + 4 quarterlies from Mar, Jun, Sep, Dec) lack a matching option expiry.

¹ OSI: https://www.m-x.ca/f_publications_en/faq_symbologie_en.pdf

Current Expiry Cycle

Share futures	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
Options (cycle 1)	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.

***bolded text** - Listings at the beginning of a year

The imbalance created by mismatching expiries has led to an inordinate amount of requests from participants to open new expiries. These daily occurrences increase the amount of work for the Bourse’s Market Operations Department and foster a negative customer experience due to inconsistencies in option expiry listings. By resolving this issue, the Bourse would potentially improve Market Makers’ performance via the avoidance of adding a large batch of ad hoc option lines for which they have to adapt their bulk quoting tools. Aligning those aforementioned products expiries would enhance the market participants’ ability to pursue hedging and strategy-based opportunities.

Additionally, a share futures settlement price model is being developed by the Bourse that utilizes option prices and non-arbitrage constraints to define the settlement prices. In order to achieve the most cogent and precise settlement price possible, the alignment of prices will be dependent on the expiration dates of options and share futures being aligned. Otherwise, the pricing of share futures without a corresponding option expiry will necessitate the interpolation of a model curve, thus increasing the chance of error in calculating the final settlement price.

Furthermore, the expansion of the Option expiry cycle would align the Bourse more closely with the OTC markets offerings, thus providing clients with an exchange listed alternative.

c. Objectives

The proposed solution is to amend the rules to allow the listing of options up to two years but initially list four consecutive months with four quarterly expiries to match the share futures expiries. These additions by stages would facilitate the Bourse’s market participants’ and independent software vendors’ ability to integrate the supplementary 10-15K Option lines with the introduction of a minimum four extra expiries. January expiries would remain as these expiries have been adopted by the Bourse’s market participants and their removal would see objection on their part.

Proposed Expiry Cycle

Share futures	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
New Option Class Expiry	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

d. Comparative Analysis

The below table presents a global benchmark for what concerns the presence of a single harmonized option cycle.

	Options Clearing Corporation (OCC)	Euronext	Borsa Italiana	Australian Securities Exchange (ASX)
One Harmonized Option Cycle	Yes*	Yes	Yes	Yes

US: Options Clearing Corporation (OCC)

The OCC is the single clearinghouse of all exchange listed options in the United States and supports expiries with this rule²:

Expiration Months

*In general, two near-term months plus two additional months in the January, February or March quarterly cycle. **However, different exchange programs allow for expiration-month listing beyond the standard method.**

Europe: (Multiple regions including France/Netherlands/Belgium) - Euronext

All Stock and ETF Options may have varying expiry patterns but the expiry cycles share one single rule³:

European exchanges, leading purveyors of single-stock futures, have ensured that their equity options align perfectly with their single-stock futures by listing serials 12 months a year.

- All Serials: 12 months of the year
- Quarterlies: March, June, September, December
- Half Year: June, December
- Annual: December

Europe: LSE Borsa Italiana IDEM Market

All Stock and ETF Options may have the same expiry pattern and the expiry cycles share one single rule⁴:

² <https://www.theocc.com/clearing/clearing-services/specifications-equity-options.jsp>

³ <https://derivatives.euronext.com/en/products/stock-options/ENX-DAMS/contract-specification>

⁴ <https://www.borsaitaliana.it/derivati/specifichecontrattuali/opzioni-su-azioni.en.htm>

All Serials: 12 months of the year
Quarterlies: March, June, September, December
Half Year: June, December
Annual: December

Australian Securities Exchange (ASX)

ASX will list series in the first 6 maturity months and then only March, June, September and December expiry months out for a period of 2 years. For maturities in year 3, ASX will only list June and December expiry months. ASX will not list series with expiries beyond 3 years. Index options are available in March, June, September, December and up to 4 quarters ahead.

In conclusion, for the Bourse to better align itself with its global peers, it is essential for its rules to extend the possible option expiry dates of its equity products in order to offer a single harmonized option cycle and provide its market participants with the flexibility to advance their trading strategies.

e. Analysis of Impacts

i) Impacts on technology

There is no technical impact on the technical systems of the Bourse since the current system already supports a wide array of option expiry cycles. The Implemented Option Symbology Initiative was introduced to allow all North American Exchanges to have increased optimization in their options listing procedures⁵.

ii) Impacts on regulatory functions

The proposed changes should have no impact on the activities of the Regulatory Division of the Bourse, other than possible adjustment to the surveillance tools to support a larger load of data.

iii) Impacts on clearing functions

The proposed changes should have no impact on the activities of CDCC.

iv) Public Interest

The Bourse considers that the present initiative is in the interest of the public since one of its goals is to reduce client requests to the Market Operations Department to add new option series during the day. This is currently considered to be disruptive to both the designated options market makers and all data vendors.

Also, the harmonization of Single share futures expiry cycle with equity options will enable

⁵ See OSI: https://www.m-x.ca/f_publications_en/faq_symbologie_en.pdf

approved participants of the Bourse to obtain improved hedging strategies.

IV. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies 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.

V. ATTACHED DOCUMENTS

The proposed amendments to the rules are attached.

PART 11 - PRODUCT SPECIFICATIONS FOR EQUITY INDEX, EQUITY, ETF AND CURRENCY OPTIONS

Chapter A — Options on the S&P/TSX Composite Index Banks (Industry Group)

Article 11.1 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months ~~three months~~ plus the next ~~two~~ four months in the designated quarterly Cycle: March, June, September and December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term Options.

Chapter B — Standard Options on the S&P/TSX 60 Index

Article 11.101 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months ~~three expiries~~, plus the next ~~two~~ four ~~expiries months~~ in the designated the quarterly Cycle: March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term Options.

Chapter B.1—Mini Options on the S&P/TSX 60 Index

Article 11.117 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months ~~three expiries~~, plus the next four ~~months in the designated~~ ~~two expiries in the~~ quarterly Cycle March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term Options.

Chapter C — Options on the S&P/TSX Capped Utilities Index

Article 11.201 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months ~~three months~~ plus the next ~~two~~ four months in the designated quarterly Cycle: March, June, September and December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term options.

Chapter D — Equity Options

Article 11.302 Expiry Cycle

- (a) At a minimum, the two four consecutive months nearest expiries, plus the next four months in the designated quarterly Cycle: March, June, September and December ~~two quarterly expiries as defined in the expiry cycle published on the Bourse's website. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.~~
- (b) Annual expiry of January for long term Options.

Chapter E — Currency Options

Article 11.401 Expiry Cycle

- (a) At a minimum, the three four consecutive months nearest expiries, plus the next two four months expiries in the designated quarterly Cycle March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Long term Options have an annual expiry in January.

Chapter F — Options on Exchange Traded Funds

Article 11.502 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months three expiries plus the next two expiries four months in the designated quarterly Cycle: March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Long term Options have an annual expiry in March.

PART 11 - PRODUCT SPECIFICATIONS FOR EQUITY INDEX, EQUITY, ETF AND CURRENCY OPTIONS

Chapter A — Options on the S&P/TSX Composite Index Banks (Industry Group)

Article 11.1 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months plus the next four months in the designated quarterly Cycle: March, June, September and December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term Options.

Chapter B — Standard Options on the S&P/TSX 60 Index

Article 11.101 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months plus the next four months in the designated the quarterly Cycle: March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term Options.

Chapter B.1—Mini Options on the S&P/TSX 60 Index

Article 11.117 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months, plus the next four months in the designated quarterly Cycle March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term Options.

Chapter C — Options on the S&P/TSX Capped Utilities Index

Article 11.201 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months plus the next four months in the designated quarterly Cycle: March, June, September and December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of December for long term options.

Chapter D — Equity Options

Article 11.302 Expiry Cycle

- (a) At a minimum, the two four consecutive months plus the next four months in the designated quarterly Cycle: March, June, September and December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Annual expiry of January for long term Options.

Chapter E — Currency Options

Article 11.401 Expiry Cycle

- (a) At a minimum, the three four consecutive months plus the next four months in the designated quarterly Cycle March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Long term Options have an annual expiry in January.

Chapter F — Options on Exchange Traded Funds

Article 11.502 Expiry Cycle

- (a) At a minimum, the nearest four consecutive months plus the next four months in the designated quarterly Cycle: March, June, September, December. The Bourse may list expiries over a period of two years and an annual expiry in January under such expiry Cycle.
- (b) Long term Options have an annual expiry in March.