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

CIRCULAR
December 20, 2011

REQUEST FOR COMMENTS

REDUCTION OF THE S&P/TSX 60 INDEX OPTION (SXO) CONTRACT SIZE

AMENDMENTS TO ARTICLES 6651, 6654, 6773 AND 6775 OF RULE SIX

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved the amendments to the specifications of the S&P/TSX 60 Index Options contract (the "**SXO contract**") and to the articles 6651, 6654, 6773 and 6775 of Rule Six ("**Rule Six**") of the Bourse in order to reduce the multiplier of the SXO contract, from 100 per S&P/TSX 60 index point to 10 per S&P/TSX 60 index point.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **January 20, 2012**. Please submit your comments to:

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

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

Ms. 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

Circular no.:187-2011

Appendices

For your information, you will find in appendices an analysis of the proposed amendments as well as the amended specifications of the SXO contract and amended articles of Rule Six. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as determined by the *Derivatives Act* (R.S.Q., 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 (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 and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the Derivatives Act (R.S.Q., chapter I-14.01).

Tour de la Bourse
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REDUCTION OF THE S&P/TSX 60 INDEX OPTION (SXO) CONTRACT SIZE

AND

AMENDMENTS TO RULE SIX OF THE RULES OF BOURSE DE MONTRÉAL INC.

I. Introduction

The Bourse de Montreal Inc. (the "Bourse") proposes to reduce the multiplier of the S&P/TSX 60 Index Options contract, from 100 per S&P/TSX 60 index point to 10 per S&P/TSX 60 index point. In light of this change, the Bourse also proposes to amend the relevant position limits, reporting requirements and the nominal value of the minimum price fluctuations of the SXO contract.

II. Detailed Analysis

A. Rationale

The reduction in the multiplier of the SXO contract will support the following objectives:

Improved Liquidity:
The SXO Options contract was first listed in 2000, and trading volumes have always been relatively low (year-to-date average daily traded volume of 400 contracts) compared with the global market volume growth in the index options market seen during that time period. To encourage greater use of the SXO contract, brokers, end users and market makers consulted by the Bourse indicated that lowering the contract size would help enhance liquidity by improving investor accessibility and providing more precise hedging and trading opportunities. A reduced notional size is also expected to encourage narrower bid-ask spreads and hence result in better market quality. Furthermore, with a reduced multiplier, the notional value of the SXO contract will be more in-line with the notional value of index options contracts listed on international exchanges.

Overall, a more liquid version of the SXO contract would allow participants to better manage risk, and would better position the SXO in a context of expected growth in index options strategy use, as end users are becoming increasingly more macro driven through the global crisis and are more capital sensitive in anticipation of the implementation of Basel III capital standards.

Support the VIXC Index:
The Bourse's S&P/TSX 60 VIX® volatility index (VIXC) measures the 30-day implied volatility of the Canadian stock market, deriving that volatility from the S&P/TSX60 options. Improved SXO market quality and liquidity is crucial to VIXC index reliability and essential to support the eventual launch of volatility based derivative products under consideration by the Bourse.

Table I demonstrates the volume growth of volatility derivative products in the United States and Europe.

Table I: Volume of U.S. and Europe Volatility Derivatives Products

Exchange	Instrument	Jan-Sept 2010	Jan-Sept 2011	Growth
CBOE	Options	43 599 417	78 109 061	79%
	Futures	2 607 910	9 663 671	271%
Exchange	Instrument	Jan-Aug 2010	Jan-Aug 2011	Growth
EUREX	Options	455 629	393 843	-14%
	Futures	126 609	1 160 410	817%

*Source FIA

Furthermore, several exchanges in Asia, specifically the Osaka and Hong Kong Exchanges, have recently decided to introduce volatility derivative products as well.

B. International Index Options Benchmarking

The following tables illustrate the importance and growth of international index compared to SXO options.

Table II: Per Product International Benchmarking Analysis

	Index	YTD Volume (JAN-SEPT 2011)
AMERICA	S&P/TSX 60	78 024
	DOW JONES	1 281 337
	S&P 500	147 770 471
	NASDAQ	3 230 653
EUROPE	EUROSTOXX 50	276 264 964
	FTSE 100	15 643 396
	CAC 40	3 953 560
	DAX	53 497 805
ASIA / PACIFIC	NIKKEI 225	35 894 317
	HANG SENG	9 053 855
	KOSPI 200	2 916 782 530
	ASX 200	7 478 304

*Source FIA

Table III: Overall International Equity Indexes Options Volume Growth

	JAN-SEPT 2010	JAN-SEPT 2011	Growth
U.S. Equity Indexes	221 079 743	258 261 334	17%
International Equity Indexes (excluding U.S.)	3 401 753 473	4 211 422 906	24%

*Source FIA

III. Proposed Regulatory Amendments

A. Changes to the Contract Specifications

The new SXO contract multiplier will be C$10 per S&P/TSX 60 index point, amounting to a contract value of approximately C$7,000 (as of October 31st, 2011) compared to a contract value C$70,000 for the current SXO contract.

Table IV: Contract Specifications Highlights

	Current SXO with 100x multiplier	SXO with 10x multiplier
Multiplier	C$100 per S&P/TSX 60 index point	C$10 per S&P/TSX 60 index point
Minimum price fluctuation (tick)	0.01 index point = C$1 per contract, for premiums of less than 0.10 index points 0.05 index points = C$5 per contract, for premiums of 0.10 index points and over	0.01 index point = C$0.10 per contract, for premiums of less than 0.10 index points 0.05 index points = C$0.50 per contract, for premiums of 0.10 index points and over
Contract months	Nearest three months plus the next two months in the designated quarterly cycle March, June, September and December.	
Daily settlement	Same as at present according to the Procedures	
Final settlement	Same as at present: cash settled against the opening level of the underlying S&P/TSX 60 Index on the third Friday of the expiration month. The opening level of the S&P/TSX 60 (spot index) is provided by Standard and Poor's.	
Positions limits	50 000 contracts	500 000 contracts
Reporting level	1,500 contracts on the same side of the market in all contract months combined.	15,000 contracts on the same side of the market in all contract months combined.

B. Amendments to the Rules of the Bourse

The Bourse proposes to make the following amendments to Rule Six.

The Bourse proposes to amend its rules related to "position limits" (6651 B) 3.), to "reports related to position limits" (6654 a) ii)), to "trading unit" (6773) and to ''minimum price increment (tick size)'' (6775) to reflect the proposed SXO contract specification changes.

An equivalence principle would be applied in order to prevent participants from being exposed to a higher level of risk than dictated by the current provisions. Hence, SXO position limits would be increased tenfold in direct relation to the tenfold decrease in the contract multiplier resulting in similar maximum exposure. The same principle would be applied to reporting requirements. The minimum price fluctuation amount (tick value) shall also be reduced proportionally.

IV. Public Interest

The proposed amendments to SXO would result in a stock index option contract that will still be cost efficient for institutional investors, while being attractive for smaller investors who find the current contract size prohibitive.

V. Process

The proposed modifications, including this Analysis, are to 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.

VI. References

TMX – Montréal Exchange - Monthly Statistics
http://www.m-x.ca/nego_donnees_mensuels_en.php

Futures Industry Association – Monthly Statistics
http://www.futuresindustry.org/

VII. Attached Documents

- Rule Six of Bourse de Montréal Inc.: amendments to articles 6651, 6654, 6773 and 6775
- Amended Specifications - S&P/TSX 60 Index Options Contract

RULE SIX

TRADING

B. SPECIAL RULES FOR TRADING EQUITIES - CDNX
(22.11.99, abr. 12.02.02)

C. OPTIONS

Section 6651 - 6670
Limits and Restrictions

6651 Position Limits
(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, XX.XX.XX)

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

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

1. Stock or index participation unit options

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

   b) 22,500 contracts, where either the most recent interlisted six-month trading volume of the underlying interest totals at least 20 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 15 million shares and at least 40 million shares are currently outstanding;

   c) 31,500 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 40 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares and at least 120 million shares are currently outstanding.

   d) 60,000 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 80 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares and at least 240 million shares are currently outstanding.

   e) 75,000 contracts, where either the most recent interlisted six-month trading volume in the underlying interest totals at least 100 million shares, or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares and at least 300 million shares are currently outstanding.

f) 300,000 contracts for options on the following index participation units:

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

2. Debt options

8,000 contracts;

3. Index options

500,000 contracts;

4. Options on futures

The number of contracts established as the position limits for the underlying futures contract.

For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.

5. Sponsored options

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

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

6. Currency options

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

C) For the purpose of this article:

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

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

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

D) Conversions, reverse conversions, long and short hedges

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

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.

6654 Reports Related to Position Limits
(05.08.75, 15.11.79, 24.04.84, 20.03.91, 10.11.92, 07.04.94, 07.09.99, 11.02.00, 28.01.02, 26.09.05, XX.XX.XX)

a) Each approved participant shall file with the Bourse, no later than three business days following the last business day of each week, a report in such form as may be prescribed, giving the name and address of any client who, on the last business day of any week, held aggregate long or short positions in excess of:

   i) 250 contracts, in the case of stock and bond and 500 contracts, in the case of index participation units;

ii) ~~1,500~~ 15,000 contracts, in the case of index options;

iii) 500 contracts, for currency options;

iv) 250 options or futures equivalent contracts (as defined in article 6651) with respect to a position involving the option and the underlying futures contract, in the case of options on Government of Canada Bond futures;

v) 300 options or futures equivalent contracts (as defined in article 6651) with respect to a position involving the option and the underlying futures contract, in the case of options on Canadian Bankers' Acceptance futures;

on the same side of the market in any single class. The report shall indicate for each such class of options, the number of contracts comprising each such position and, in the case of short positions, whether covered or uncovered.

vi) The position limits requirements described above apply to sponsored options by using an equivalent unit of trading.

b) In addition to the reports required above, each approved participant shall report immediately to the Bourse any instance in which the approved participant has reason to believe that a client, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established in article 6651.

c) For the purposes of this article, the term "client" in respect to any approved participant shall include the approved participant, any general or special partner of the approved participant, any officer or director of the approved participant, or any participant, as such, in any joint group or syndicate account with the approved participant or with a partner, officer or director thereof.

OPTIONS ON THE S&P/TSE 60 STOCK INDEX

Section 6771 - 6779
Specific Rules Concerning the Contract Specifications
(07.09.99)

6771 Application of Specific Rules
(07.09.99, 29.04.02)

In addition to articles 6571-6700 of the Rules, options on the S&P/TSE 60 Stock Index shall be subject to the Rules contained in this section.

6772 Nature of Options
(07.09.99, 31.01.01, 29.04.02)

A buyer of one S&P/TSE 60 Stock 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 60 Stock Index on the expiration date, as provided for in article 6676 a) of the Rules.

The seller of one S&P/TSE 60 Stock 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 60 Stock Index on the expiration date, as provided for in article 6676 a) of the Rules.

6773 Trading Unit
(07.09.99, XX.XX.XX)

The multiplier for one option contract shall be CAN $10~~0~~ per index point of the S&P/TSE 60.

6774 Strike Prices
(07.09.99)

Strike prices are set at a minimum of 2.5 index point intervals.

6775 Minimum Price Increment (Tick Size)
(07.09.99, XX.XX.XX)

The minimum tick size shall be:

.05 index point intervals equivalent to CAN $~~5.00~~0.50 per contract for premiums of .10 index points and over; and

.01 index point intervals equivalent to CAN $~~1.00~~ 0.10 per contract for premiums of less than .10 index points.

6776 Daily Price Limit
(07.09.99, 29.04.02)

The Bourse will halt trading in options on the S&P/TSE 60 Stock Index in accordance with the Circuit Breaker Policy (T-3) of the Bourse.

6777 Last Trading Day
(07.09.99)

Index options shall cease trading on the Exchange trading day preceding the Expiration Date of the contract month, as defined in article 6637 b) of the Rules.

6778 Trading Hours
(07.09.99, 29.04.02, abr. 06.01.03)

6779 Trading Halts or Suspensions
(24.09.01)

A) Trading on the Bourse in an option on the S&P/TSE 60 stock 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 on the S&P/TSE 60 stock index class:

i) for options on the S&P/TSE 60 stock index, the extent to which trading is not occurring in stocks underlying the index;

ii) for options on the S&P/TSE 60 stock index, whether the most current calculation of the index derived from the current market prices of the stocks is available;

B) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.

C) Trading in options on the S&P/TSE 60 stock 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.

D) Once trading resumes, the pre-opening stage shall be done in accordance with article 6376 of the Rules.

S&P/TSX 60 Index Options

Underlying	The S&P/TSX 60 is a capitalization-weighted index of the 60 largest companies in Canada, which have the most liquid stocks.
Multiplier	C$10~~0~~ times the S&P/TSX 60 Index point.
Contract Months	The nearest three months plus the next two months in the designated quarterly cycle March, June, September and December.
Contract Months (Long Term)	All options will be listed for expiry in December.
Minimum Price Fluctuation	0.01 index points = C$0.10 per contract for premiums of less than 0.10 index points 0.05 index points = C$0.50 per contract for premiums of 0.10 index points and up.
Strike Prices	Set at a minimum of 2.5 index points.
Strike Prices (Long Term)	Set at a minimum of 5 index points.
Contract Type	European style.
Last Trading Day	The trading day prior to the Expiration Day.
Expiration Day	The 3^{rd} Friday of the contract month, providing it be a business day; if not, the 1^{st} preceding business day.
Settlement upon Exercise	Cash settlement. The final settlement price is the Official Opening Level of the underlying index on the Expiration day.
Reporting Limit	15,0~~5~~00 contracts on the same side of the market in all options contract months combined.
Position Limits	Information on Position Limits can be obtained from the Bourse as they are subject to periodical changes.
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodical changes.
Price Limits	A trading halt will be invoked in conjunction with the triggering of “circuit breakers” in the underlying stocks.
Trading Hours	9:31 a.m. to 4:15 p.m.
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC)
Ticker Symbol	SXO