

MANAGEMENT OF OPTION LISTINGS

OFFICIAL PRACTICE

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PREAMBLE

1.1. Members of the Listing Committee

The Montréal Exchange (the “Exchange”) sets up an internal Listing Committee (the “LC”) to manage listings on Bourse de Montréal Inc.

The LC is composed of at least one representative from each following department:

- Market Operations
- Research and Development
- Canadian Derivatives Clearing Corporation (the CDCC)
- Business Development – Financial Markets
- Regulatory Division

1.2. Quorum

A majority of Listing Committee members shall constitute a quorum.

1.3. Mandate

- 1.3.1. Analyses and approves the new option classes for listing.
- 1.3.2. Analyses and approves the option classes to be delisted.
- 1.3.3. Proposes eligibility and deletion criteria.
- 1.3.4. Liaises with the Adjustment Committee of the CDCC, which handles adjustments for corporate events impacting an underlying security.

1.4. Calendar of meetings

The LC meets monthly to deal with introductions and deletions of option classes—and all other relevant issue that it will want to put on the agenda. The purpose of these meetings is to examine analysis, market opinions and other necessary information to determine matters relating to the agenda and to proceed with introducing new option classes and deleting existing classes.

1.5. Regulatory reference

The practices defined below have to concur with existing official rules of Bourse de Montréal Inc., specifically as defined in article 6394 *Introduction and Deletion of Classes and Series of Options* that stipulates:

INTRODUCTION

- a) *Before submitting a formal application to the Clearing Corporation for the introduction of a new class of options, the Bourse shall be satisfied that the liquidity of the options market on the Bourse is not unduly reduced by reason of such addition.*
- b) *When introducing a new class of options, the Bourse shall determine:*
 - i) *the symbol;*
 - ii) *the date that trading shall begin.*

DELETION

- a) *Whenever the Bourse determines that an underlying interest previously approved for options transactions on the Bourse does not meet the requirements for continued approval or for any other reason should no longer be approved, it may decide not to open for trading any additional series of the class covering the underlying interest*

and to prohibit any opening purchase transactions in already existing series of that class.

- b) The Bourse can delete an equity option if the issuer has failed to make timely reports as required by the regulation where the underlying interest is traded.*
- c) Such action shall not be taken without regard to the necessity of maintaining a fair and orderly market and to the protection of purchasers and writers of option contracts.*
- d) The Bourse may delete specific series of any class of options when the series have no open interest.*

2. INTRODUCTION OF A NEW OPTION CLASS

2.1. Eligibility

Core policy: All constituents of the S&P/TSX 60 Index are listed with a regular expiry cycle. Other candidates must meet three of the four following quantitative criteria:

- Float quoted market value must be at least \$1 billion.
- Average daily dollar value traded for the last six months must be at least \$10 millions.
- Average daily volume for the last six months must be at least 500,000 shares.
- Stock price must be at least \$10.00.

Any addition to the S&P/TSX 60 Index would be automatically scheduled for a full listing service. If an underlying is removed from the index, the option class will be subject to the deletion criteria.

Flexibility option: Any future additions to the core listings, which are done on an exceptional basis related to market conditions and demands, may be introduced with a short expiry cycle and may be subject to the same performance thresholds. Such additions must satisfy the Bourse's and the CDCC's introduction rules as mentioned in 1.5.

Listings on long-term options and options on other equity-like instruments will be considered case by case. Long-term option classes will be introduced where open interest for the full expiry cycle exceeds 10,000 contracts for six consecutive months.

2.2. CDCC approval

Each option class proposed for introduction has to get the approval of the CDCC's Board before being listed. The CDCC is the issuer of all option classes listed on the Exchange.

2.3. Evaluation of eligible classes falling outside the core policy

The Exchange runs an analytical evaluation of the underlying asset, including liquidity, market depth as well as general interest of market participants and potential market makers.

2.4. Market makers' interest

Each option class proposed for introduction has to receive interest from at least two market makers to be listed.

2.5. Priority of assignments

If the Exchange decides to reintroduce an option class that had been deleted in the past, a priority in market making assignments will be given to the firms that had received previous assignments on this class.

2.6. Listing procedures

The eligible option classes are listed according to the procedures included in the official rules of Bourse de Montréal Inc. (see point 1.5. above); for each proposed class that satisfies the set criteria, a symbol and an introduction date is determined. The date on which new classes or new expiries are listed is the business day following an expiry date. However, the LC can decide to proceed with interventions outside such date if it judges that it is suitable.

2.7. Strike prices

For each option class listed, the Exchange will list series according to the following rule:

2.7.1. For each determined class, the Exchange lists the following call and put option series:

- Two out-of-the-money series (for calls and puts)
- One at-the-money series (for calls and puts)
- Two in-the-money series (for calls and puts)

2.7.2. For classes whose underlying shares trade under \$10.00, the interval between listed strike prices is \$1.00.

2.7.3. For classes whose underlying shares trade between \$10.01 and \$50.00, the interval between listed strike prices is \$2.50.

2.7.4. For classes whose underlying shares trade above \$50.01, the interval between listed strike prices is \$5.00.

2.7.5. The LC reserves itself the right to list new option classes or series with different strike price intervals than those stated above, on a case-by-case basis and according to market demand.

2.8. Expiries

Each option class follows a determined expiry cycle. The Exchange's objective is to harmonize interlisted option classes cycles with those of the other exchanges where the class is already listed. The introduction is done according to one of the following cycles:

- Short cycle: three near months
- 5 (1): two near months plus the next two months of the January, April, July, October quarterly cycle
- 5 (2): two near months plus the next two months of the February, May, August, September quarterly cycle
- 5 (3): two near months plus the next two months of the March, June, September, December quarterly cycle

An option class listed under the short cycle can be promoted to one of the three other cycles according to procedures defined hereafter.

2.9. Procedure to promote an option class listed in the short cycle

Following an evaluation over two consecutive months of performance statistics, with criteria described hereafter, the LC will decide on the deletion, status quo or evolution of the option class expiry cycle on the following basis:

- 2.9.1. Any class with an average daily volume under 40 contracts will be considered for deletion.
- 2.9.2. Any class with an average daily volume between 40 and 80 contracts will remain listed and an additional expiry month will be listed.
- 2.9.3. Any class with an average daily volume above 80 contracts will be considered for promotion of its expiry cycle to a regular expiry cycle, according to the cycle that will best match its dividend payment dates.

3. DELETION OF AN OPTION CLASS

3.1. Eligibility

Any option class that does not conform to the practices and rules of the Exchange as stated in point 2.1 can be deleted.

Among others, the Exchange can decide to delete an option class if the underlying company has omitted to make periodic declarations as requested by the rules of Bourse de Montréal Inc. or of the exchange where the underlying is trading.

The LC considers the eventual deletion of option classes in light of the following aspects:

- minimum average daily volume
- market quality
- participants' interest
- market makers' interest

3.2. Minimum average daily volumes

Option classes that do not conform to the following condition can be deleted.

If the minimum average daily volume of the option class is under 40 contracts

- either during six consecutive months for the regular expiry cycles,
- or during two consecutive months for the short expiry cycle,

then the option class will be considered for deletion by the Committee. To rule on this case, the LC will consider the market quality on that class, particular events that might affect the underlying security and the potential interest of a significant clientele.

3.3. Distant strike prices

Any series of an option class whose strike price is too distant from the current trading price of the underlying can be deleted if no open interest remains on that series.

3.4. Minimum trading prices of underlying

If the closing price of the underlying has been under a certain minimum price level during the majority of the trading days over the last six months (regular expiry cycles) or over the last two months (short expiry cycle), then no new series is introduced. In this case, at expiry of such series, no new expiry is introduced. The Exchange defines on a case-by-case basis this price level while considering the market interest.

3.5. Deletion procedures

- 3.5.1. The LC informs the market through a circular about the deletion of the class.
- 3.5.2. No new maturity is listed for this option class.
- 3.5.3. Any maturity on option series that still has open interest continues to trade until their expiry, as usual, i.e. by continuing to list all the series.
- 3.5.4. The deletions occur following the market's close on the day of the expiry.
- 3.5.5. Any maturity with no open interest is automatically deleted following the LC's decision.
- 3.5.6. Market makers have to continue to maintain a market on current classes and series as usual, and according to their obligations.