



NOTICE TO MEMBERS

No. 2012 – 020

February 14, 2012

REQUEST FOR COMMENTS

AMENDMENT TO RULE B-10 EUROPEAN STYLE INDEX OPTIONS

On February 2, 2012, The Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved the amendment to Section B-1001 of the Rules of CDCC. The purpose of the proposed amendment is to reduce the Unit of Trading of the Index Options contract, from 100 units per S&P/TSX 60 index point to 10 units per point, in accordance with the amendment proposed by the Montreal Exchange (“MX”) as published in the Circular dated December 20, 2011 (Circular no.: 187-2011).

Please find enclosed an analysis document as well as the proposed amendment to Section B-1001.

Process for Changes to the Rules

CDCC is a recognized self-regulatory organization (SRO) by the Autorité des marchés financiers (AMF) and as such, carries on activities as a clearing house and as an SRO in Québec.

The Board of Directors of CDCC has the power to approve the adoption or amendment of Rules of CDCC. The amendments are submitted to the AMF in accordance with the self-certification process.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

François Gilbert
Assistant Secretary
Canadian Derivatives Clearing Corporation
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Québec H4Z 1A9
E-mail: legal@m-x.ca

Canadian Derivatives Clearing Corporation

The Exchange Tower	800 Victoria Square
130 King Street West, 5 th Floor	3 rd Floor
Toronto, Ontario	Montréal, Québec
M5X 1J2	H4Z 1A9
Tel. : 416-367-2463	Tel. : 514-871-3545
Fax :: 416-367-2473	Fax: : 514-871-3530

www.cdcc.ca

A copy of these comments shall also be forwarded to the AMF to:

*Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse, P.O. Box 246
800 Victoria Square, 22nd Floor
Montréal, Québec H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca*

For any question or clarification, Clearing Members may contact the CDCC Member Services.

Glenn Goucher
President and Chief Clearing Officer



AMENDMENT TO RULE B-10 EUROPEAN STYLE INDEX OPTIONS

Amendment to article: B-1001

Introduction

Bourse de Montreal Inc. (the “Bourse”) proposes to reduce the multiplier of the S&P/TSX 60 Index Options contract, from 100 units per S&P/TSX 60 index point to 10 units per S&P/TSX 60 index point. CDCC requires a Rule amendment to reflect this change.

I. Proposed Regulatory Amendment

CDCC proposes to amend Rule B-10 European Style Index Options to reflect the reduction in the multiplier of the S&P/TSX 60 Index Options contract.

II. Objective of the Proposed Amendment to the Rules of CDCC

Ensure that the change in the product specifications of the S&P/TSX 60 Index Options contract is reflected in the rules of CDCC.

III. Process

The proposed regulatory amendment is submitted for approval by the CDCC Board. Once the approval has been obtained, the proposed amendment, including this analysis, will be transmitted to the Autorité des marchés financiers (Autorité) in accordance with the self-certification process and to the Ontario Securities Commission for information.

IV. REFERENCES

Document Attached

- Rule B-10 European Style Index Options (AMENDED)

RULE B-10 EUROPEAN STYLE INDEX OPTIONS

This Rule B-10 is applicable only to European Style Options where the Underlying Interest is an Index group. Such Options are referred to in this Rule B-10 as “Index Options”.

Section B-1001 Definitions

Notwithstanding Section A-102 for the purpose of European Style Index Options the following terms shall have the meanings specified:

“Aggregate Current Value” - The level of an Index at the opening of trading on the Expiration Date of the Option multiplied by \$1.00 and by the number of Units of Trading.

“Aggregate Exercise Price” - the Exercise Price of an Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Option.

“Call” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Call Exercise Settlement Amount.

“Call Exercise Settlement Amount” - The cash difference when the Aggregate Exercise Price is deducted from the Aggregate Current Value.

“Exercise Settlement Date” - the Business Day following the Expiration Date.

“Expiration Date” - the third Friday of the month.

“Index” - a securities index specified by an Exchange which is determined by the inclusion and relative representation of the Current market prices of a group of securities.

“Put” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Put Exercise Settlement Amount.

“Put Exercise Settlement Amount” - The cash difference when the Aggregate Current Value is deducted from the Aggregate Exercise Price.

“Underlying Interest” - the Index which is the subject of the Option.

“Underlying Security” - any of the securities included in an Index underlying a class of Index Options.

“Unit of Trading” - 100 units.

Section B-1002 Exercise Prices

(Deleted)

Section B-1003 Trade Reporting of Options Transactions

Notwithstanding Subsection B-201(6) each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form prescribed, of any error. Unless such notification is received by the established cut-off hour, the exchange transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

Section B-1004 Expiration Date Exercise Procedure

- (1) European Style Index Options will be listed with American Style Options on the Expiry Report issued on the Saturday following Expiration Date and all in-the-money Long Positions will be automatically exercised in accordance with Section B-307.
- (2) The term “closing price” as used in Section B-307 in reference to the Index underlying any European Style Index Option shall mean the level of the Index at the opening of trading on the Expiration Date as reported to the Corporation by the relevant Exchange. If no level was reported for such Index, the Corporation may determine not to fix a “closing price” for such European Style Index Option. In the event of such a determination, Expiry Reports will not include a daily “closing price” for such European Style Index Option and Clearing Members may exercise such European Style Index Option only by giving affirmative exercise instructions in accordance with Subsections B-307(b) or (e).

Section B-1005 General Rights and Obligations of Clearing Members

Notwithstanding Section B-110, for the purposes of Index Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.

Section B-1006 Adjustments

No adjustments will ordinarily be made in the terms of Index Options in the event that Underlying Securities are added to or deleted from an Index or when the relative weight of one or more Underlying Securities in an Index is changed. However, if the Corporation shall determine in its sole discretion that any such addition, deletion or change causes significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Index Options by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long or Short Positions in these contracts. Determinations with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2).

Section B-1007 Unavailability or Inaccuracy of Aggregate Current Value

- (1) If the Corporation shall determine that the Aggregate Current Value for the Index underlying any series of Index Options (the “affected series”) is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Options of the affected

series, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:

- (a) Suspend the settlement obligations of exercising and assigned Clearing Members with respect to Index Options of the affected series. At such time as the Corporation determines that the required Aggregate Current Value is available or the Corporation has fixed the Call and Put Exercise Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Option.
 - (b) Fix the Call and Put Exercise Settlement Amounts for exercised contracts of an affected series in accordance with the best information available as to the correct Aggregate Current Value.
- (2) The Aggregate Current Value of an Index as reported by the Exchange specifying such Index shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Aggregate Current Value, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Aggregate Current Value to be used for settlement purposes.

Section B-1008 Delivery and Payment with Respect to Options Exercised

Notwithstanding the provisions of Sections B-403 to B-408 inclusive, for the purposes of Index Options, exercised and assigned Index Options shall be settled in cash at Settlement Time on the Exercise Settlement Date.

Section B-1009 Suspension of a Clearing Member - Exercised Options

- (1) Notwithstanding Section A-408, unless the Corporation stipulates otherwise in a particular case, exercised Index Options to which a suspended Clearing Member is a party shall be closed through the procedures set forth in Sections B-407 and B-408, respectively, except that the Corporation may decide not to buy-in or sell-out. All losses and gains on such buy-ins and sell-outs shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member; provided, however, that all losses on such buy-ins and sell-outs in a Market Maker Account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account.
- (2) The Corporation shall effect settlement pursuant to Section B-1009 with all Clearing Members that have been assigned an exercise notice filed by a suspended Clearing Member or that have filed exercise notices that were assigned to a suspended Clearing Member without regard to such suspension.