



NOTICE TO MEMBERS

No. 2010-091

October 15, 2010

REQUEST FOR COMMENTS

MODIFICATIONS TO THE ELIGIBILITY CRITERIA FOR UNDERLYING INTERESTS OF EQUITY OPTIONS AND ADDITION OF SECURITIES ISSUED BY EXCHANGE TRADED FUNDS AS UNDERLYING INTERESTS OF EQUITY OPTIONS IN RULE B-6 OF CDCC

AMENDMENTS TO SECTIONS B-601, B-602, B-603, B-604, B-606, B-607 AND B-608, AND ADDITION OF NEW SECTIONS B-605, B-609 AND B-610

Summary

The Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved the amendments to Rule B-6 in order to update the eligibility criteria for the underlying interests, grant more discretion to the management of CDCC and adopt distinct eligibility criteria and ineligibility causes for equity options on securities issued by exchange traded funds.

You will find enclosed the analysis document of the proposed rule amendments as well as the proposed regulatory amendments.

Process for Changes to the Rules

CDCC is a recognized self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité) 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 will be transmitted to the Autorité in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

Comments on the proposed amendments to Rule B-6 of CDCC's Rules must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

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

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Corporate Secretary
Autorité des marchés financiers
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MODIFICATIONS TO THE ELIGIBILITY CRITERIA FOR UNDERLYING INTERESTS OF EQUITY OPTIONS AND ADDITION OF SECURITIES ISSUED BY EXCHANGE TRADED FUNDS AS UNDERLYING INTERESTS OF EQUITY OPTIONS IN RULE B-6 OF CDCC

AMENDMENTS TO SECTIONS B-601, B-602, B-603, B-604, B-606, B-607 AND B-608, AND ADDITION OF NEW SECTIONS B-605, B-609 AND B-610

INTRODUCTION

The proposed amendments may be separated in two distinct groups. The first group of amendments aims to update Rule B-6 Stock Options (“Rule B-6”) of the Canadian Derivatives Clearing Corporation (“CDCC” or the “Corporation”) with current market practices for equity options. The proposed amendments to CDCC’s Rule B-6 are required to update the eligibility criteria for the underlying interests as well as to grant more discretion to the management of the Corporation in order for it to adapt more quickly to changing market conditions. In addition, a new section grants to the Corporation, under certain circumstances, the discretion to approve securities as underlying interests to equity options even if the securities do not meet the requirements of Rule B-6.

The second group of amendments aims to allow CDCC to answer market participant’s requirements by adopting distinct eligibility criteria and ineligibility causes for equity options on securities issued by exchange traded funds (“ETF”).

I. SUMMARY OF PROPOSED AMENDMENTS

CDCC is proposing to amend Rule B-6 by proceeding with the following amendments: a) modifications to definitions and update of the terminology, b) increased discretion granted to the management of the Corporation, c) modify the reference data used to determine the liquidity of the underlying securities, d) addition of new exceptions and e) addition of specific eligibility criteria for ETFs securities.

A) Modifications to Definitions and Update of the Terminology

Certain definitions found in Section B-601 must be modified to better reflect the current markets, to insure flexibility for the application of Rule B-6 and to allow the addition of securities issued by ETFs as underlying interests. The following definitions have either been updated or added: “ATS”, “Canadian Exchanges”, “ETF”, “Security”, “North American Volume” and “Value of Available Public Float”.

The principal change made to the terminology of Rule B-6 is the addition of units (including units of ETFs and units of income trusts) as eligible underlying interests. As a result, Rule B-6 will be applicable to stock options, options on ETFs units and options on income trusts units.

B) Increased Discretion Granted to the Management of the Corporation

The modifications will allow for the management of CDCC to approve securities as underlying interests and additional series of options that meet the eligibility criteria provided for in Section B-603. Therefore, obtaining Board approval will not be required to determine eligible underlying interests. This will provide CDCC with a more efficient process to adapt to changing market conditions.

C) Modifications to the Reference Data Used to Determine the Liquidity of the Underlying Interest

The modifications will 1) identify a new reference data to calculate the market value of the underlying interest and 2) provide precision with regards to the volume calculation.

1) The notion of value of available public float has been substituted to the market capitalisation as the reference data to determine the available market value of the security eligible as underlying interest. The use of market capitalisation could lead to erroneous conclusion about the liquidity of the underlying interest since it included restricted shares or units that are not freely tradable and cannot be delivered for settlement.

2) Precisions have been added to the terms of the Rule to clarify how the average daily North American volume of the underlying interest is calculated. The description of the calculation has evolved from a monthly North American volume to an average daily North American volume of the security for the last twenty (20) business days of the previous quarter. Volume on Canadian and American alternative trading systems ("ATS") has also been added to the North American volume calculation.

Also, broader thresholds have been implemented for eligibility criteria provided for in Section B-603 and ineligibility causes in Section B-604 to allow for a wider range of securities to be approved as underlying interests.

D) Addition of New Exceptions

Addition of new Section B-605, granting discretion to the management of the Corporation which, under exceptional circumstances, may: 1) approve an underlying interest which does not meet the eligibility criteria, or 2) approve a new series of a class of equity options already listed whose value of available public float or average daily North American volume has fallen below inadmissibility causes thresholds.

Also, following the addition of paragraph 2) in the new Section B-605, the Corporation has the discretion to approve a security as an underlying interest based on current data instead of using the data from previous quarter as required by Section B-603.

E) Addition of Specific Eligibility Criteria for ETFs Securities

Addition of specific eligibility criteria for the approval of securities issued by Exchange Traded Funds ("ETF") as underlying interests. The new Section B-609 will allow the Corporation to approve as underlying interest, a security issued by an ETF that doesn't meet the eligibility criteria provided for in Section B-603. The securities issued by the ETF must : 1) be listed on a Canadian Exchange, 2) have a value of available public float equal to or greater than \$20 Millions CAD and 3) be available for creation or redemption each business day at a price calculated in relation with the net asset value. In addition, Section B-610 Ineligibility Causes for ETF's Securities has been added.

II. RATIONALE

A) Modifications to Definitions and Update of the Terminology

The following definitions found in Section B-601 have been updated to reflect the current market environment: “Canadian Exchanges”, “North American Volume”, “Primary Exchange” and “Value of Available Public Float”. The definitions of North American Volume and Value of Available Public Float, which was substituted to the market capitalisation terminology, were updated to provide more accurate measures of liquidity of the underlying interests.

The following definitions have been added to reflect the current market environment and to allow the addition of securities issued by ETFs as underlying interest: “ATS”, “ETF” and “Security”. The added definitions of ETF and Security were necessary to reflect the widened scope of the Rule and the addition of units as eligible underlying interests. The addition of ATS was necessary considering the volume of transactions conducted on alternative trading systems within the Canadian securities market.

B) Increased Discretion Granted to the Management of the Corporation

The clearinghouses are now evolving in different market conditions for which it requires to be proactive. The Corporation must keep a right balance between the time necessary to launch new products, good risk management policy and the needs of the participants.

The Corporation publishes an options eligibility list on a quarterly basis. Following the adoption of the proposed amendments, if a security meets the eligibility criteria, the Corporation may approve the security as an underlying interest without requiring CDCC's board approval. Again, considering the security meets the eligibility criteria, we know that for the last quarter, the security was within the top 30% of the value of available public float and within the top 30% of the North American volume.

C) Modifications to the Reference Data Used to Determine the Liquidity of the Underlying Interest

Eligibility criteria and ineligibility causes at CDCC are far off the levels used in the U.S. The Listing Committee of the Bourse de Montréal Inc. (“Bourse”) requested that CDCC broadened its listing criteria to ensure the listing procedures are more in line with those used by other exchanges and clearinghouses around the world.

Current Market Practices:

	<i>BOX</i> ¹	<i>CDCC</i> ²	<i>Explanations</i>
<i>Underlying registration</i>	Section 3 Criteria for Underlying Securities a) Underlying securities with respect to which put or call options contracts are approved for listing and trading on BOX must meet the following criteria: i) The security must be registered and be an “NMS stock” as defined in Rule 600 of Regulation NMS (National Market System) under the Exchange Act. ii) the security shall be	The Security is listed on a Canadian Exchange	Securities in both jurisdictions trade on a recognized exchange.

	characterized by a substantial number of outstanding shares that are widely held and actively traded.		
	b) In addition, the Exchange shall from time to time establish standards to be considered in evaluating potential underlying securities for Exchange options transactions. There are many relevant factors which must be considered in arriving at such a determination, and the fact that a particular security may meet the standards established by the Exchange does not necessarily mean that it will be selected as an underlying security. The Exchange may give consideration to maintaining diversity among various industries and issuers in selecting underlying securities. Notwithstanding the foregoing, an underlying security will not be selected unless:		
<i>Market capitalisation</i>	Min share price: \$3 or \$7.50 (see <i>section share price requirement</i>) Min public float: 7million shares	Within top quartile of all securities (reviewed each quarter). \$85.6 million (based on third quarter 2010 revision)	Instead of using an absolute value to determine the market capitalization, the U.S. Market uses a combination of a minimum share price plus a minimum number of shares available to the public. CDCC has no minimum price requirement, but the Bourse's listing committee has established guidelines and allows to list options only for underlying with a share price superior to 4\$. With the proposed Rule's changes, CDCC would like to use the value of the available public float instead of market capitalisation in order to better reflect the liquidity of the underlying. However, CDCC has no explicit minimum required number of shares like in the U.S.
<i>Trading volume</i>	Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve (12) months.	Within the top quartile of all securities (reviewed each quarter). Average Monthly Volume 117,550 (based on third quarter 2010 revision) for the last 20 business days.	Both markets use the volume definition, but we think that using a monthly volume give us more flexibility to list new securities
<i>Share price requirement</i>	If the security is a <i>covered securities</i> : the market price for the previous five consecutive business days must be at least \$3. If the security is <i>not covered</i> : the market price for the majority of business days during the three calendar months must be at least \$7.50.	N/A	<i>See Comments in the Market Capitalisation Section.</i>

<i>Main shareholders</i>	There are a minimum of 2,000 shareholders of the underlying security.	N/A	CDCC finds this information non essential and by using the value of the available public float, we have a good measurement of the liquidity.
<i>Liquidity of the underlying</i>	The security shall be characterized by a substantial number of outstanding shares that are widely held and actively traded.	N/A	No provision. This is a general comment and CDCC has granted discretion to the CDCC's management to determine the acceptability of a new underlying.
<i>Underlying compliance</i>	The issuer is in compliance with any applicable requirements of the Exchange Act.	N/A	<i>See Underlying registration</i>

1) North American Volume of Securities

The Corporation is proposing to increase the threshold within the eligibility criteria for the approval of securities as underlying interests from the top quarter (25%) to the top thirty percent (30%) of North American volume. The North American volume of securities is calculated for all securities listed on all Canadian exchanges as of the last trading day of the previous quarter. For clarity purposes, the calculation of the average daily North American volume has been revised. CDCC uses the data from the last 20 business days of the previous quarter to calculate the average daily North American volume.

2) Value of Available Public Float a better indicator of liquidity

CDCC is proposing to expand its eligibility criteria for underlying interests from the top quarter (25%) of market capitalisation to the top thirty percent (30%) of value of available public float of securities listed on Canadian exchanges. Value of available public float is a better indicator of liquidity and no substantial increase in the risk is anticipated following the acceptance of a larger number of securities as underlying interests. Following the expansion of the eligibility criteria, an increase of 25% of the eligible underlying interest is expected. For now, the eligibility list is composed of approximately 400 securities.

CDCC's risk model is not compromised by the heightened threshold of value of available public float eligibility criteria. CDCC's risk model assumes a minimum two-day (2) liquidation period for its equity options. Therefore, the risk model should not be affected by a heightened threshold in the eligibility criteria from top quarter (25%) to top thirty percent (30%) of the Value of available public float of the securities listed on Canadian exchanges.

For consistency matters, the threshold within the ineligibility causes have been increased from below the top third (33%) of market capitalisation to below the top forty percent (40%) of value of available public float and from below the top third (33%) of monthly North American volume to below the top forty percent (40%) of average daily North American volume of the underlying security.

D) Addition of New Exceptions

Addition of new Section B-605, granting discretion to the management of the Corporation which, under exceptional circumstances, may: 1) approve an underlying interest which does not meet the eligibility criteria, or 2) approve a new series of a class of equity options already listed whose value of available public float or average daily North American volume has fallen below inadmissibility causes thresholds.

Also, following the addition of paragraph 2) in the new Section B-605, the Corporation has the discretion to approve a security as underlying interest based on the current liquidity data instead of using the data from previous quarter as prescribed by Section B-603.

Considering the changing environment and the practices of others exchanges, the Corporation wishes to have the discretion for the approval of securities as underlying interests. This added flexibility grants the Corporation a competitive advantage in a world of rapid financial innovation. The Corporation must keep a right balance between the time to compensate a new security, the margin requirements for these new securities and the needs of the participants. The clearinghouses are now evolving in different markets conditions for which it requires to be proactive without ignoring proper risk management practices.

E) Addition of Specific Eligibility Criteria for ETFs Securities

The key factors justifying the addition of a specific section in the rule for securities issued by ETFs:

- Increased number of eligible securities as underlying interest while keeping under control the risk margining process for these new eligible securities issued by ETFs.
- Decreased launching delay for options on securities issued by ETFs.

These new measures will help market participants who want to launch options on securities issued by ETFs on a broader range of underlying.

1) ETFs market

Canada's ETFs market is in quick expansion. The total assets under management grew from \$19.3 billions CAD in December 2008 to \$33.3 billions CAD in September 2010. Other markets have experienced a similar growth. In the U.S., the ETFs' market gained 76% from November 2008 to September 2010, pushing total assets under management to \$840 billions USD.

When comparing the proportion of ETFs for which there are options available, there is a major gap between Canada and the U.S. As illustrated in the following table, the main difference resides in the option availability of the non-leveraged ETFs, where only 21.9% of those securities have options available in Canada against 35.4% in the U.S.

Consequently, CDCC's modifications to the eligibility criteria provided for in Rule B-6 could narrow this gap and, using adequate criteria, would avoid changes in the risk procedures for those securities.

U.S. and Canadian ETFs' market segmentation						
US ETF Market (as of September 3, 2010)						
ETF type	# of active securities	% of ETF type	# of sec. with options available	% ETF type with option available	Market size (in billions USD)	% of Total Market Size
Non-leveraged US ETFs	800	84,03%	245	30,63%	807,70	96,16%
Leveraged US ETFs	152	15,97%	92	60,53%	32,28	3,84%
US Aggregated	952	100,0%	337	35,40%	839,98	100,0%
Canadian ETF Market (as of September 3, 2010)						
Non-leveraged CAN ETFs	121	81,2%	18	14,9%	32,11	93,64%
Leveraged CAN ETFs	28	18,8%	12	42,9%	2,18	6,36%

Canadian Aggregated	137	100,0%	30	21,9%	33,29	100,0%
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In order to determine the minimum value of available public float for a security issued by an ETF, we considered the 149 ETFs listed on the Canadian market. The assets fluctuate between \$1,5M (HUC – Horizon Betapro Winter-Term) to \$11.4G (XIU - IShares S&P/TSX 60 Index Fund). By excluding XIU, the second most important ETF in asset size is XSB at \$1.9G (XSB - IShares DEX Short Term Bond). For the current 30 options on securities issued by ETF's listed on the Bourse, the smallest ETF is HED (HED - Horizon Betapro S&P/TSX CA Energy) with \$18.9M in assets.

As a consequence, \$20 Millions CAD was selected as the threshold for the new section to be added in the Rule. The revised thresholds are applied in combination with the terms of Rule B-6. Section B-605, also grants to the Corporation's management the discretion to add or refuse a security issued by an ETF based on combination of quantitative and qualitative factors.

The requirement to have securities issued by ETFs available for creation or redemption each business day is necessary to maintain the flexibility to sell or buy a security issued by ETF in case the Corporation needs to manage a defaulting position or a non conforming clearing member. Also, this characteristic insures liquidity of the securities issued by ETFs, in addition to the minimum value of available public float criteria.

2) Comparative study – eligibility criteria for securities issued by ETFs

In the U.S., in order to specify eligibility criteria applicable to securities issued by ETFs, the U.S. exchanges have added a section in their rules:

ETFs criteria	<p>(A) the Exchange-Traded Fund Shares either (1) meet the criteria and guidelines set forth in paragraphs (a) and (b) of this Section 3 above; or (2) the Exchange-Traded Fund Shares are available for creation or redemption each business day from or through the issuing trust, investment company, commodity pool or other entity in cash or in kind at a price related to net asset value, and the issuer is obligated to issue Exchange-Traded Fund Shares in a specified aggregate number even if some or all of the investment assets and/or cash required to be deposited have not been received by the issuer, subject to the condition that the person obligated to deposit the investment assets has undertaken to deliver them as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the issuer of the Exchange-Traded Fund Shares, all as described in the Exchange-Traded Fund Shares' prospectus; and</p> <p>(B)</p>	<p>a) the Security is listed on a Canadian Exchange;</p> <p>b) the Value of Available Public Float of the Security is equal to or greater than \$20M CAD;</p> <p>c) the Securities are available for creation or redemption each business day by the ETF at a price calculated in relation with the net asset value;</p>	<p>As described in the previous table, the U.S. market considers only the constituents of the ETFs if the underlying does not meet the quantitative criteria.</p> <p>We propose to use a minimum asset size.</p>
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	<p>i. any non-U.S. component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;</p> <p>ii. component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index;</p> <p>iii. component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index.</p> <p>iv. For Commodity Pool ETFs that engage in holding and/or managing portfolios or baskets commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities, options on non-U.S. currency and/or securities, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in such commodity futures contracts and/or options on commodity futures contracts on the specified commodities or non-U.S. currency, which are utilized by the national securities exchange where the underlying Commodity Pool ETFs are listed and traded.</p>		
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III. PROPOSED AMENDMENTS TO THE RULES OF CDCC

The proposed amendments to Rule B-6 of the CDCC regarding eligibility of Underlying Interest are:

Section B-601 Definitions has been modified to add “ATS” and to replace market capitalisation by “Available Public Float”. An “ETF” definition has been added to allow the addition of the new sections B-609 and B-610. The definition of “Canadian Exchanges” has been simplified to take into consideration the multiple exchanges in Canada and the United States, the “ATS” and the constantly evolving constitution of the marketplace. There were also some housekeeping modifications made.

Section B-602 Approbation of Underlying Interest and Section B-603, paragraph (1) Criteria for Eligibility of Equity Options have been modified to replace the term “Board” by “Corporation”. This was done in order to allow CDCC management to approve for listing Equity options which meet the eligibility criteria established in the Rules. The current requirement to seek Board approval is redundant and inefficient in terms of process.

Section B-603, subparagraph (1) (b) Criteria for Eligibility of Equity Options has been modified to include the top thirty percent (30%) of the total value of available public float of all securities listed on Canadian Exchanges in lieu of the top quarter (25%) of market capitalisation of securities listed on Canadian Exchanges. This change is required in order for the Bourse to answer requests received from participants in favour of additional new listings as well as to ensure that CDCC’s criteria are more in line with those of other exchanges and clearinghouses around the world.

Section B-603, subparagraph (1) (c) Criteria for Eligibility of Equity Options has been modified to clarify that the volume criteria is in fact calculated based on the average daily North American volume of the stock over the last twenty (20) business days of the previous quarter and not the monthly volume as at the last trading day of the previous quarter. This modification is simply a clarification of the actual procedure. This section has also been amended to broaden the eligibility criteria to include the top thirty percent (30%) of the total North American volume of securities over the last twenty (20) business days of the previous quarter.

Section B-604 Ineligibility Causes for Equity Options has been modified to restate the ineligibility causes as below the top forty percent (40%) for both the value of available public float and the average daily North American volume of the stock.

Section B-605 Exceptions has been added to clarify that under exceptional circumstances the Corporation may approve an underlying security despite such underlying security not meeting the eligibility criteria provided for in Section B-603. Also, this section is applicable to additional series and the approval of a security as an underlying security even if it does not satisfy the eligibility criteria provided for in Section B-603 as of the previous quarter but satisfies the eligibility criteria for the current quarter.

Section B-609 Eligibility Criteria for ETF’s Securities as Underlying Interest of Equity Options has been added to specify the eligibility criteria that will be applicable to the securities issued by ETFs.

Section B-610 Ineligibility Causes for ETF’s Securities as Underlying Interest of Equity Options has been added to differentiate the ineligibility causes for securities issued by ETF versus other products.

IV. OBJECTIVE OF THE PROPOSED AMENDMENTS TO THE RULES OF CDCC

The objectives of the proposed amendments to Rule B-6 are to:

- A.** Clearly establish the method of calculation of the average daily North American volume of the underlying interest.
- B.** Allow for uniformity with current market practices relative to the use of the value of the available public float criteria as a measure of liquidity of a security.
- C.** Establish exceptions granting the Corporation discretion to act in exceptional circumstances.
- D.** Ensure efficiency in the approval process for securities meeting the eligibility criteria by granting CDCC's management the discretion to approve such securities as underlying interest.
- E.** Broaden the eligibility criteria to expand the list of securities that can be approved as underlying interest and establish a different treatment for securities issued by ETFs.

V. PUBLIC INTEREST

These amendments to Rule B-6 of CDCC are proposed in order to update the eligibility criteria for the underlying interests of equity options as well as to grant more discretion to the management of the Corporation in order for it to adapt more quickly to changing market conditions. The proposed amendments will also allow CDCC to adopt distinct eligibility criteria for equity options on securities issued by ETFs.

VI. PROCESS

The proposed regulatory amendments are submitted for approval by the CDCC Board. Once the approval has been obtained, they will then be transmitted to the Autorité des marchés financiers (AMF) in accordance with the self-certification process and to the Ontario Securities Commission (OSC) for information. They will also be published by CDCC for a request for comments period of 30 days.

VII. REFERENCES

Documents Attached

- Rule B-6 Equity Options

Sources

- http://www.bostonoptions.com/box_regulations/PDF/BOX_RULES.pdf;
- <https://www.ise.com/assets/documents/OptionsExchange/legal/rules/rules.pdf>;

~~————~~ RULE B-6 ~~STOCK~~EQUITY OPTIONS

This Rule B-6 is applicable to American and European Style Options where the Underlying Interest is a class of shares ("~~Share~~") or a "~~Stock~~"-class of units ("Unit"). Such Options are referred to in this Rule B-6 as "~~Stock~~Equity Options".

Amended 1/91; 03/02, 04/03, 00/00

Section B-601 Definitions

Notwithstanding Section A-102 for the purposes of ~~Stock~~Equity Options the following terms shall have the meanings specified:

"ATS" – an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation;

"Canadian Exchanges" – The Toronto Stock Exchange ~~and~~, the TSX Venture Exchange and the Canadian National Stock Exchange;

"Market Capitalization" – the capitalization Value of Available Public Float – the Underlying Interest as value of Available Public Float is calculated by the following formula: with respect to a particular Security on a given day, the number of units of such Security that are outstanding common shares, as determined by the Primary Exchange and available for trading by the public on such day, multiplied by the closing price of such Security on the Primary Exchange; on such day.

~~– "North American Volume" – for the purposes of Option eligibility and deficiency this will include trading volume from the Montréal Exchange (MX), The Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSXVN), the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the National Association of Securities Dealers Automated Quotations (NASDAQ)~~

"ETF": an exchange traded fund whose Securities are listed on a Canadian Exchange.

"North American Volume" – means, for the purposes of Equity Option eligibility and ineligibility provisions, the total trading volume on all Canadian and American exchanges and on any Canadian and American ATS where the underlying Securities are traded.

"Primary Exchange" – ~~The~~ on a given day, the main exchange ~~on which a given stock is listed, in terms of trading volume as determined by the Corporation, on which a given security is listed.~~ The ~~stock~~security may be listed on other exchanges as well; however there can only be one Primary Exchange.

"Security" – Share or Unit.

"Underlying Interest" – ~~Stocks meeting~~ – Securities meeting the criteria described in this Rule.

"Unit of Trading" – ~~100 shares~~Securities of the Underlying Interest, unless otherwise ~~designated~~ specified.

Amended 4/91; 9/98, 04/03, 04/08, 00/00

Section B-602 Approval of Underlying Interest

- (1) The ~~Stocks~~ Securities underlying the Options issued by the Corporation shall be approved by the ~~Board~~Corporation based on criteria described in Section B-603 ~~of the Rules~~.

- (2) No more than one Class of Equity Options shall be approved for any one ~~corporation~~issuer unless the ~~Board~~Corporation considers it necessary or advisable, as a temporary measure, that there be additional Classes of Equity Options.

Amended 4/91; 4/98; 9/98, 00/00

Section B-603 Eligibility Criteria for ~~Eligibility of Stock~~Equity Options

- (1) ~~(1)~~ — In considering whether any StockSecurity should be approved as the Underlying Interest of a ~~Stock~~an Equity Option, the ~~Board~~Corporation, in those circumstances where Section B-~~605~~606 does not apply, shall ensure that prior to being approved as an Underlying Interest the StockSecurity meets all of the following criteria:

- (a) the StockSecurity is listed on a Canadian Exchange;
- (b) ~~the Market Capitalization of the Stock~~the Value of Available Public Float of the Security is within the top ~~quartile (25%)~~thirty percent (30%) of the total Value of Available Public Float of all Securities listed on all Canadian Exchanges as of the last trading day of the previous quarter. The specific dollar threshold will be published by the Corporation; and
- (c) the ~~monthly average daily~~ North American Volume of the StockSecurity, for the last twenty (20) business days of the previous quarter, is within the top ~~quartile (25%)~~thirty percent (30%) of the North American Volume of Securities listed on all Canadian Exchanges as of the last trading day of the previous quarter. — The specific threshold will be published by the Corporation.

Amended 4/91, 6/91; 9/98, 04/08, 00/00

Section B-604 ~~Deficiency~~ Criteria for ~~Stock~~ Ineligibility Causes for Equity Options

- (1) — Except as provided for in Section B-~~604 (2)~~605, no new Series of a Class of StockEquity Options which is already listed may be opened for trading if any one of the following ~~conditions~~events occur with respect to the Underlying Interest:

- (a) the StockSecurity is no longer listed on a Canadian Exchange;
- (b) the ~~Market Capitalization of the Stock~~Value of Available Public Float of the Security is below the top ~~third (33%)~~forty percent (40%) of the total Value of Available Public Float of Securities listed on all Canadian Exchanges as of the last trading day of the previous quarter. — The specific dollar threshold will be published by the Corporation; or
- (c) the ~~monthly average daily~~ North American Volume of the StockSecurity, for the last twenty (20) business days of the previous quarter, is below the top ~~third (33%)~~forty percent (40%) of the total North American Volume of Securities — listed on all Canadian Exchanges as of the last trading day of the previous quarter. — The — specific threshold will be published by the Corporation.

Amended 3/89, 4/91, 6/91; 9/98, 04/08, 00/00

Section B-605 Exceptions

- (1) Under exceptional circumstances ~~and in the interest of maintaining a fair and orderly market or for the protection of investors,~~ the Corporation may ~~agree to clear additional Series of Options with respect to any~~

~~Underlying Interest which is deficient under one or more of the criteria set forth in subsection (1) of this Section B-604.;~~

~~a) approve a Security as an underlying security to an Equity Option even if it does not meet the eligibility criteria specified in paragraphs b) and c) of subsection B-603 (1).~~

~~b) approve for trading additional series of Equity Options, without regard to Ineligibility Causes provided for in Section B-604, if the underlying security is listed on a Canadian Exchange.~~

~~(2) The Corporation may approve a Security as an underlying security even if it does not meet the eligibility criteria provided for in Section B-603 as of the previous quarter but meets the eligibility criteria found in Section B-603 as of the current quarter.~~

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~~Section B-605 Procedure for Assessing the Effect of Stock List Changes on Stock Options Eligibility~~

~~Section B-606 Effect of Stock List Corporate Changes on Stock Equity Options Eligibility~~

(1) Acquisition of a Listed ~~Company~~Entity by a Newly-Established ~~Company~~Entity

If a newly-established ~~company~~entity has acquired a listed ~~company~~entity, the trading record and history of the ~~predecessor company~~acquired entity may be used to test the options eligibility of the ~~stock~~Security of the new ~~company~~entity as provided for in Section B-603.

(2) Legal Name Changes

~~Corporate~~Legal name changes have no effect on listed issues options eligibility. All statistics and history of the ~~predecessor company~~entity prior to the legal name change continue to apply to the Underlying Interest under the new ~~corporate~~legal name.

(3) Substitutional Listings

When a ~~Stock list change which~~listed Security is ~~the changed as a~~ result of a merger or acquisition involving the issuance or acquisition of listed ~~shares has occurred, all listed issues connected with~~Securities, the Corporation shall re-examine the change are reviewed. Equity Options eligibility of all listed issues affected by such change. No decision to change the option eligibility status of a listed issue will occur until after ~~the offer or transaction such corporate change~~ is completed. – The general process which applies is as follows:

- (a) (i) ~~it is confirmed by the Corporation~~ shall confirm that each of the ~~predecessor companies entities affected by such corporate change~~ is listed on a Canadian Exchange; or
- (ii) on receipt of the notice of corporate change or following the closing date of a share purchase offer, ~~it is confirmed by the Corporation~~ shall confirm that at least one ~~predecessor company~~entity affected by such corporate change has Options currently listed on a ~~Participating an~~ Exchange, and these Options are not at or past the date ~~where when~~ no new series may be listed ~~if they are classified as delistable by the Corporation, nor is~~ because the Corporation has decided to no longer list them or because the Underlying Interest for these Options ~~classified as~~

~~deficient~~has become ineligible according to Section B-604 ~~of the Rules of the Corporation.~~

- (b) ~~It is confirmed by~~ the Corporation shall confirm that, prior to the merger or acquisition involving the issuance or acquisition of listed ~~shares~~Securities, the sum of the ~~Market Capitalization Value of Available Public Float~~ of the ~~predecessor companies exceeds~~entities affected by such corporate change meets the criteria set out in ~~Section B-604(1) paragraph~~ (b) of ~~the Rules~~subsection B-603(1).
- (c) ~~It is confirmed by~~ the Corporation shall ensure that the ~~resultant company is~~Securities of the new entity are listed on a Canadian Exchange.
- (d) ~~It is confirmed by~~ the Corporation shall ensure that the ~~resultant company exceeds~~new entity meets the criteria set out in ~~Section B-604(1) paragraph~~ (b) of ~~the Rules~~subsection B-603(1).

(4) **New ~~Shares~~Securities**

If new ~~shares~~Securities are created for the purpose of completing a merger or acquisition involving the issuance or acquisition of listed ~~shares~~Securities, the relationship between the old and new ~~shares~~Securities will determine if the new ~~shares~~Securities will be ~~treated~~considered by the Corporation either as a substitutional, original or supplementary listing ~~by the Corporation~~. Generally if the new issue is the only common issue of the ~~company~~entity, then the new issue will be ~~treated~~considered by the Corporation as a substitutional issue. Otherwise, the issue will be ~~treated~~considered by the Corporation as an original or supplementary issue ~~by the Corporation~~.

Amended 9/98, 00/00

Section B-~~606~~607 Good Deliverable Form of ~~Stocks~~Securities

A certificate representing a ~~Stock~~Security shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such certificate would constitute good delivery under the by-laws and rules of all of the Exchanges.

Amended 1/89; 9/98; 03/02, 04/03, 00/00

Section B-~~607~~608 Delivery of ~~Stocks~~Securities After "Ex-Dividend" Date

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the "ex-dividend" date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the "ex-dividend" date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue ~~its cheque~~payment to the receiving Clearing Member for the amount of the distribution, which ~~cheque~~payment shall be payable on the payment date of such distribution.

- (3) When an Underlying Interest is listed on more than one Exchange and differing "ex-dividend" dates are fixed by the Exchanges, the earliest date will be considered the "ex-dividend" date for purposes of this Section B-~~607~~608.

Amended 4/88 and 6/88, 4/91, 9/91; 03/02, 04/03, 00/00

Section B-609 Eligibility Criteria for ETF's Securities as Underlying Interest of Equity Options

- (1) Notwithstanding the eligibility criteria of Section B-603, in considering whether any Security issued by an ETF should be approved as the Underlying Interest of an Equity Option, the Corporation shall ensure that prior to being approved as an Underlying Interest the Security meets all of the following criteria:

a) the Security is listed on a Canadian Exchange;

b) the Value of Available Public Float of the Security is equal to or greater than \$20M CAD;

c) the Securities are available for creation or redemption each business day by the ETF at a price calculated in relation with the net asset value;

- (2) The Securities issued by an ETF approved as the Underlying Interest of an Equity Option in accordance with paragraph (1) are not subject to the Ineligibility Causes provided for in Section B-604.

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Section B-610 Ineligibility Causes for ETF's Securities as Underlying Interest of Equity Options

- (1) Except as provided for in Section B-605, no new Series of a Class of Equity Options on ETF Securities which is already listed following Section B-609 may be registered for trading if any one of the following events occur with respect to the Underlying Interest:

a) the Security is no longer listed on a Canadian Exchange;

b) the Securities cease being available for creation or redemption each business day by the ETF at a price calculated in relation with the net asset value.

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