



Tuesday, April 18, 2017

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Office of the General Counsel
Bourse de Montréal Inc.
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M^e 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

Dear M^e Chicoine and M^e Beaudoin:

**Re: Request For Comments - as per Circular 037-17 issued by Bourse de Montréal Inc. on
March 21, 2017**

The Investment Industry Association of Canada (the "IIAC") would like to take this opportunity to express its views on the proposed changes via Request for Comments - as per Circular 037-17 issued by Bourse de Montréal Inc. on March 21, 2017. Please note that this letter is drafted in English as per the Bourse's request dated October 15, 2015.

The IIAC is the national association representing the position of 130 IIROC-regulated Dealer Member firms on securities regulation, public policy and industry issues. We work to foster a vibrant, prosperous investment industry driven by strong and efficient capital markets.

Proposed Limit Increases

The IIAC and its Members feel the proposed limit increases, as stated in circular 037-17, are welcomed but are still too conservative considering international standards and market needs. We believe the limits should further be increased by the Bourse.

Our industry has seen a substantial increase in fund sizes and assets under management in the recent past. The Bourse's current position limits, despite the proposed increases, have yet to adapt to our industry's business reality.

For example, fund managers need to efficiently hedge and protect their holdings. Position limits on ETF options are therefore still too low in comparison to the importance of the funds under management. For this reason, the proposed position limits should greatly be increased.

Methodology for Calculating Position Limits

Our members have mentioned that the current methodology for calculating position limits should be changed to properly address market needs. We feel that this change should be made as soon as possible.

Our IIAC members have mentioned, for example, that the current proposed amendment increases the position limit for units of the iShares S&P/TSX 60 Index Fund ("XIU") from 300,000 to 600,000. The Bourse has decided to double the limit until a better methodology can be implemented. We understand that the Bourse is proposing a temporary solution to the position limit issue but the methodology for such temporary relief (doubling the current position limit) is overly simplistic and does not meet market needs.

Furthermore, the current solution of doubling the limits shows a disconnect to the underlying option market (see Arbitrage section below). As an example, our members have mentioned that the Bourse's position limit for the XIU could easily be in the millions without impacting the derivatives and cash markets.

The members do not understand the rationale used by the Bourse in establishing its position limits on options related to synthetically created products such as ETFs. Clarification is needed.

Arbitrage

Our members have noted that despite the proposed increases in ETF position limits, an arbitrage situation would still exist.

The ETF basket can be replicated by using options on the ETF individual components without ever exceeding the position limits on each of the individual components (while exceeding the position limits on the ETF options for the same exposure). Although this approach would provide a much greater coverage than the Bourse's position limits on ETF options, it is a much more cumbersome exercise than simply transacting the Index option.

The Bourse must be aware that, from a supervision and surveillance perspective, it would be beneficial for our members to have simple and clear trading requirements on the derivatives market rather than have their traders create complicated trading and booking models to generate the exact same exposure through other products.

Our members are of the view that this type of arbitrage should not exist and should be nullified by having equally appropriate position limits on ETF options.

Current Position Limit Exemption Process

Because the position limits are too low for market needs, our members must either rely on the Bourse's Exemption process or trade over-the-counter. Our members need certainty when conducting legitimate hedging transactions to protect their holdings or to provide liquidity.

We believe the Bourse's current position limit exemption policy is not an appropriate vehicle to overcome existing position limits shortcomings. The exemption process is burdensome for our members and lacks approval certainty. Because of this, we once again believe the proposed position limits should further be increased so that members do not need to rely on the exemption policy or do not need to trade over-the-counter.

For example, the position limit exemption policy should be amended to include pre-emptive exemption approvals in certain situations.

Conclusion

As previously mentioned, members agree that increasing position limits is a step in the right direction. However, we are urging the Bourse to adopt a more appropriate methodology for determining position limits on ETF options going forward. This new methodology should be used as soon as possible.

It is a must that the methodology for establishing position limits on ETF options be responsive to market needs without compromising market integrity. Furthermore, the rationale for methodology must consider the structure of the ETFs and align itself to international position limit standards on ETF options.

In reviewing its position limits, the Bourse may want to consider the nature of the products (for example, narrow based ETFs vs. broad based ETFs) and the objective it wishes to achieve when establishing position limits.

We are therefore hoping the Bourse's upcoming methodology for calculating ETF option position limits will be "effectively adapted to market needs" and will be in line with the Regulatory Division's mission as stated in Circular 023-17 issued by the Bourse on February 17, 2017:

"The Division's mission is to promote the integrity of exchange-traded derivatives markets at the Bourse or in Canada through the development and consistent application of clear, fair rules and policies that are effectively adapted to market needs".

Please note that the IIAC and its Members, as always, remain available for further consultations.

Yours sincerely,



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