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Re: Request for Comments – Proposed Amendments to the Rules of Bourse De Montréal Inc. Regarding Position Limits for Options and Share Futures Contracts – Circular 166-25, issued on December 11, 2025

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to the Regulatory Division (the **Division**) of the Bourse de Montréal Inc. (the **Bourse**) regarding the proposed amendments to the Rules of the Bourse on position limits for options and share futures contracts (the **Circular**).

The Canadian Independent Finance and Innovation Counsel represents national Investment Dealers and their industry's position on securities regulation, public policy, and industry issues. We represent notable CISO-regulated Investment Dealers in the Canadian securities industry.

Industry Views

We are supportive of the intent behind this initiative to foster market efficiency through liquidity and price discovery by encouraging legitimate trading activities and the holding of genuine large positions on a listed market. The Bourse must continue to implement and monitor measures such as position limits to ensure a robust, fair, and orderly market. The position limits should be calibrated at levels that foster market efficiency while ensuring stability and preventing adverse market impacts.

Proposed Amendments of the Bourse:

- (a) Add a delta-based hedge exemption to the existing hedge exemptions prescribed in the rules and a notification requirement when using the hedge exemption.

The Investment Dealers we represent commend the Bourse for introducing a delta-based hedge exemption as it aligns Canadian market practice with US market standards. We acknowledge that legitimate risk-managed positions are unlikely to have an adverse effect on the market.

- (b) Update the position limit threshold to 500,000 contracts.

The Investment Dealers we represent recognize the substantial growth in options activity and support the introduction of a new 500,000 contracts position limit threshold. The new threshold is correct and its application to most of the options classes in figure 5 is reasonable. However, its application to a few options classes in figure 5 (namely HND, XEG and ZEB) is concerning. More details will be provided below.

- (c) Modify the methodology applied to set position limits for contracts where the underlying security is an exchange-traded fund (ETF) (other than leveraged ETFs), in order to:

- i. Extend the multiplier of two times the position limit levels to options and futures contracts on non-equity ETFs.

The Investment Dealers we represent appreciate that the Bourse will now align itself with global practices and cease the segregation of non-equity ETFs when determining position limits on options.

- ii. Modify the assets under management (AUM) and outstanding units criteria for the multiplier of four times the position limit levels and extend the multiplier to options and futures contracts on any type of ETF.

The Investment Dealers we represent appreciate that the Bourse will now align itself with global practices and cease the segregation of non-equity ETFs when

determining position limits on options. However, given the increased activity in this market, there is no clearly discernable reason to significantly lower the criteria required to reach the multiplier of four times the position limit. A healthy and stable market will grow on its own and eventually reach the required thresholds. We understand that a minor calibration may be needed but with the currently available information, we do not see the need for a major overhaul.

- iii. Add a multiplier of eight times the position limit levels to options and futures contracts on any type of ETFs where the assets under management and outstanding units criteria required are higher than the criteria specified for other multipliers.

Given the currently available information, we do not see the need to move forward with this proposed amendment. To adopt a more conservative approach, the Bourse could start by adding a multiplier of five times before introducing a multiplier of eight times. In other words, with the currently available information, we do not see a necessity to introduce a new multiplier. If the Bourse is adamant about adding a new multiplier, we are of the view that it should do so in a gradual manner to avoid any possible market disruption. Given that position limits and the methodology to determine them must be reviewed periodically, it would not affect market efficiency and would ensure its stability.

Areas of Concern

The Investment Dealers we represent have a few concerns, primarily related to efficient communication between Approved Participants (APs) and the Division and how the Bourse plans to implement and monitor measures such as position limits to ensure a robust, fair, and orderly market.

As mentioned, the Investment Dealers we represent commend the Bourse for introducing a delta-based hedge exemption. The concerns of our members more specifically relate to the notification process that will govern communication between Approved Participants and the Division: **The Division should adopt an efficient process that can be easily implemented.**

Regarding position limit thresholds, we applaud the introduction of a new position limit threshold of 500,000 contracts. We recognize the substantial growth in this market and are happy to see businesses access capital and investors manage their savings. Derivatives play a critical role in risk management, price discovery, and market efficiency, and, when properly used, can be a good source of leverage. The Bourse must continue to ensure a robust, fair, and orderly market.

The concerns of the Investment Dealers we represent more specifically relate to the fine line between determining limits that foster liquidity and price discovery while preventing large positions that could disrupt the market and facilitate manipulation. With the information provided, we are hard pressed to agree with the significant changes proposed to the position limits multiplier on ETFs and their associated criteria. Moreover, with the introduction of a delta-based hedge exemption, liquidity providers will have more freedom to provide liquidity.

The comparative analysis presented in section IV of the Circular is interesting. The European approach, of 25% of AUM for large ETFs (above EUR 4 billion), is significant but manageable and makes a compelling case. This might be considered comparable to the existing XIU position limit of 1,000,000 contracts. With 412,900,000 outstanding units, the current XIU position limit represents 24% of the total outstanding units. We acknowledge the reduced risk associated with the creation and redemption process. However, **it is hard to conceive that having to create or redeem more than 40% of the outstanding units of an ETF would not be disruptive to the market, and this is the case for half of the proposed new position limits on ETFs.** Moreover, the new proposed position limits on XIU would be higher than the position limits on QQQ and SPY, both of which have greater volumes and more outstanding units than XIU has. The number of hedge exemption requests made, as well as the number of times that position limits were reached in the last few years, would have been useful information to have included in the Circular to allow us to better ascertain the situation.

As previously noted, the Investment Dealers we represent have specific concerns regarding the application of the proposed threshold to certain options classes identified in figure 5, namely HND, XEG, and ZEB. Based on our analysis, the resulting positions represent a relatively high percentage of the outstanding shares for these issuers, which we believe warrants further review and consideration by the Bourse. We would be pleased to share our detailed calculations with you, should that be helpful.

Product	Position as a percentage of outstanding shares
HND	537%
XEG	273%
ZEB	238%

Conclusion

We commend the Bourse for its commitment to derivatives in Canada. The Investment Dealers we represent applaud the introduction of a delta-based hedge exemption and the introduction of a new 500,000-contracts position limit threshold. The primary objective of the Bourse should be to ensure a fair and orderly market, thereby limiting market disruption. The Bourse must establish position limits that foster liquidity and price discovery while preventing disproportionate positions that could generate adverse market impacts.

Our members urge the Bourse to adopt a conservative approach when determining position limit multipliers on ETFs and their associated criteria to preserve the structural integrity of our financial ecosystem. We acknowledge that we may not be privy to all the information necessary for completely ascertaining the situation, **however, we recommend the Bourse err on the side of caution and consider establishing a “position limit watch committee” that meets on a pre-determined basis to monitor classes where the calculated position limit represents more than 30% of the outstanding securities.**

Thank you for considering our comments on this important consultation.

As always, we are available to discuss the content of this submission further, address any concerns you may have, or provide additional information as needed. Your feedback is invaluable to us, and we are committed to ensuring that we all achieve our objectives effectively and efficiently.

Please feel free to contact me at annie@cific.co with any questions, comments, or to schedule a call to discuss any aspects of the letter or explore potential next steps. We look forward to our continued collaboration on this matter.

Sincerely,

A. Sinigagliese

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