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| <input checked="" type="checkbox"/> | Trading – Interest Rate Derivatives | <input checked="" type="checkbox"/> | Back-office - Options |
| <input checked="" type="checkbox"/> | Trading – Equity and Index Derivatives | <input checked="" type="checkbox"/> | Technology |
| <input checked="" type="checkbox"/> | Back-office – Futures | <input checked="" type="checkbox"/> | Regulation |

**CIRCULAR
January 19, 2005**

**CROSS TRANSACTIONS, PREARRANGED TRANSACTIONS AND BLOCK TRADES
AMENDMENTS TO ARTICLES 6306, 6377 AND 6380 OF THE RULES OF
BOURSE DE MONTRÉAL INC. AND DELETION OF ARTICLE 6386**

The Autorité des marchés financiers approved amendments to articles 6306, 6377 and 6380 of the Rules of Bourse de Montréal Inc. (the Bourse), and deletion of article 6386. The changes will become effective as of January 31, 2005.

The amendments to Article 6380 will allow :

- Prenegotiation discussions to occur, subject to client consent, prior to the execution of cross transactions, prearranged transactions and block trades;
- The possibility of executing cross transactions and prearranged transactions at a price at or between the best bid and best ask price. Transactions can be concluded provided orders of opposite sides meet a predetermined minimum quantity threshold and a prescribed time delay has elapsed between the display of the orders;
- The possibility of executing large size orders (block trades) at a price which can be either within or outside the limits of the range between the best bid and the best ask price. Transactions can be concluded if the size of the order is equal to or higher than the predetermined minimum quantity threshold and the price at which the transaction occurs respects fair and reasonable market value principles. The minimum quantity threshold size of the order is established by the Bourse in consultation with market participants. It is important to note that block transactions will be permitted only on interest rate futures contracts and options on futures contracts.

Article 6386 is deleted so that prearranged transactions will no longer be prohibited, and article 6306 is amended in order to allow Market Surveillance of the Regulatory Division of the Bourse to detect potential trading violations more efficiently. In addition, article 6377 is amended in order to require approved participants to maintain a record of information relating to cross transactions, prearranged transactions, and block trades for seven years instead of five years.

Circular no.: 011-2005
Amendment no.: 001-2005

For further information, participants can consult a “[Frequently Asked Questions](#)” (FAQ) document available on the Web site of the Bourse. The Bourse has also drafted specific procedures applicable to cross, prearranged and block transactions. These procedures can also be consulted on the Bourse’s Web site.

For further information, please contact Glenn Goucher, Senior Vice-President, Financial Markets, at (514) 871-7870, or by e-mail at ggoucher@m-x.ca , or Léon Bitton, Vice-President, Research and Development, at (514) 871-3583 or by e-mail at lbitton@m-x.ca.

Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary

Encl.

6306 Manipulative or Deceptive Methods of Trading

(10.10.91, 31.01.05)

No approved participant, person employed by or acting on behalf of an approved participant, person associated with an approved participant or restricted trading permit holder may use or knowingly participate in the use of any manipulative or deceptive methods of trading in connection with the purchase or sale of any securities or derivative instruments listed on the Bourse.

Without in any way limiting the generality of the foregoing, the following shall be deemed manipulative or deceptive methods of trading :

- a) effecting a transaction or a series of transactions or posting purchase or sale orders on securities or on derivative instruments traded on the Bourse alone or with one or more persons, intentionally or repeatedly and with the objective of unfairly influencing the market price of securities or derivatives instruments to make a profit from such action;
- b) creating a false or misleading appearance of trading in such securities or derivative instruments;
- c) entering orders or effecting transactions whose execution does not result in any change in the beneficial or economic ownership of the relevant securities or derivative instruments;
- d) effecting a transaction which creates an artificial price or new highs or new lows in such securities or derivative instruments during the same trading session without being justified by market conditions;
- e) entering orders or effecting a transaction with the purpose of transferring funds, assets or liabilities in contravention of legal or regulatory requirements.

6377 Keeping Records of Orders

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 31.01.05)

- 1) With the exception of orders entered by a market maker to comply with obligations required by his role and responsibilities, a record must be kept by each approved participant of each order received for the purchase or sale of securities or derivative instruments traded on the Bourse.
- 2) The record of each order executed must indicate the person who received the order, the time the order was received, the time it was entered into the electronic trading system of the Bourse, the price at which it was executed, its time of execution, its classification pursuant to the provisions of article 6376, the approved participant from or to or through whom the security or derivative instrument traded on the Bourse was purchased or sold and, as the case may be, if the order was executed as a cross transaction, a prearranged transaction or a block trade pursuant to the provisions of article 6380. Such record must be retained for seven years.
- 3) No order can be executed on the electronic trading system of the Bourse until it has been identified as above by the approved participant who received the order.

All orders for securities or derivative instruments traded on the Bourse must be time-stamped and, if applicable, indicate any special instructions including the consent of the client to prenegotiation discussions.

- 4) The record of each order which remains unfilled must indicate the person who received the order, its time of receipt and its classification pursuant to the provisions of article 6376 and such record must be retained for seven years.
- 5) All telephone conversations related to trading in securities or derivative instruments listed on the Bourse must be recorded. The following conditions apply:
 - i) Recordings must be kept by approved participants for a period of one year.
 - ii) Authorization to consult the recordings of telephone conversations shall be granted in the case of an investigation by the Bourse, the Autorité des marchés financiers or by any other regulatory body with which the Bourse has concluded an information sharing agreement;
 - iii) In the case of litigation or in disciplinary matters, the recording may be filed as evidence.
 - iv) Approved participants must advise their clients of the recording of telephone conversations and comply with the provisions of article 7452 of Rule 7.
- 6) Where an order ticket is completed, it must comply, for what concerns the information that must be entered on it, with the requirements of Section 11.2 of National Instrument 23-101 regarding Trading Rules.
- 7) Exceptionally, the Bourse may grant exemptions from all or any part of the requirements set in paragraphs 1) to 5) above.

6380 Prenegotiation Discussions, Cross Transactions, Prearranged Transactions and Block Trades
(25.09.00, 24.09.01, 29.10.01, 31.01.05)

For the purpose of this article, the terms hereunder are defined as follows:

1) Prenegotiation Discussions

Prenegotiation discussions are considered having occurred when approved participants engage in negotiations with each other or with other approved participants and/or clients prior to entering orders which may result in a cross transaction, a prearranged transaction, a block trade or an exchange for physicals transaction. Clients must consent to allow approved participants to engage in prenegotiation discussions with other approved participants and/or clients with respect to an order.

2) Cross Transactions

A cross transaction is considered having occurred when two orders of opposite sides originating from the same approved participant are intentionally executed against each other in whole or in part as a result of prenegotiation discussions.

3) Prearranged Transactions

A prearranged transaction is considered having occurred when one or more approved participants engage in prenegotiation discussions in order to agree on the terms of a transaction before entering the orders in the electronic trading system of the Bourse.

Execution of cross transactions and prearranged transactions are permitted by the Bourse when:

- i) they are on eligible securities or derivative instruments;
- ii) the orders are for a quantity equal to or greater than the minimum quantity threshold established for that eligible security or derivative instrument;
- iii) the transaction must be effected at a price that is at or between the current best bid and current best offer available in the electronic trading system of the Bourse;
- iv) the prescribed time delay between the input of an order and its opposite side order is respected in order to allow market participants to show their interest;
- v) the transactions are executed in accordance with the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.

The eligible securities or derivative instruments, the prescribed time delays and the minimum quantity thresholds are determined by the Bourse and published in the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.

It is forbidden to use the hidden quantity functionality of the electronic trading system of the Bourse to execute a cross transaction or a prearranged transaction.

4) Block Trades

A block trade is considered having occurred when one or more approved participants and/or clients engage in prenegotiation discussions to arrange large size transactions away from the electronic trading system of the Bourse at prices mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.

An approved participant of the Bourse may execute a block trade for a quantity equal to or greater than the applicable minimum volume threshold in a security or derivative instrument, other than an equity option or a share futures contract, designated by the Bourse pursuant to the following conditions:

- i) a block trade may be arranged in a designated security or derivative instrument only during the trading hours and business days authorized by the Bourse. Once a block trade has been arranged, an approved participant must submit details of the block trade to the Bourse as soon as practicable and in any event within the period of time prescribed by the Bourse.
- ii) A block trade may be arranged only in a security or derivative instrument that has been designated by the Bourse for that purpose. Such designations will be published by the Bourse, together with the minimum volume thresholds applying to those designated

securities or derivative instruments. Approved participants are permitted to enter into block trades in any strategy recognized by the Bourse.

- iii) Where a strategy involves the trading of two or more different securities or derivative instruments, the smaller of the minimum volume thresholds of the securities or derivative instruments comprised in the block trade will be applied to each of these securities or derivative instruments. Where the strategy involves the trading of two or more different contract months and/or strike prices of the same contract month, the minimum volume threshold will apply to each leg of the trade, except where specific provision has been made within the published minimum thresholds.
- iv) Approved participants may not aggregate separate orders in order to meet the minimum volume thresholds.
- v) The price at which a block trade is arranged must be “fair and reasonable” in light of (i) the size of such a block trade; (ii) currently traded prices and bid and ask prices in the same contract, at the relevant time; (iii) currently traded prices and bid and ask prices in other contract months for futures contracts or other option series for options contracts; (iv) currently traded prices and bid and ask prices in other relevant markets, including without limitation the underlying markets; (v) the volatility and liquidity of the relevant market; and (vi) general market conditions.
- vi) Block trades shall not set off special terms orders or otherwise affect orders in the regular market.
- vii) It is strictly prohibited for an approved participant, for both the buyer and the seller, to enter into a block trade to circumvent the contract month roll in the corresponding security or derivative instrument.

The eligible securities or derivative instruments and the minimum quantity thresholds are determined by the Bourse and published in the Procedures for the Execution of Block Trades.

6386 Unacceptable Practices
(25.09.00, 24.09.01, abr. 31.01.05)



**PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS
TRANSACTIONS AND THE EXECUTION OF PREARRANGED
TRANSACTIONS
REVISED**

In accordance with article 6380 of the Rules of Bourse de Montréal Inc. (the Bourse), the following are the eligible products, the prescribed exposure time delays which must occur at or between the current best bid and the current best offer available in the electronic system of the Bourse and the minimum quantity thresholds.

| ELIGIBLE PRODUCTS | PRESCRIBED TIME DELAY | MINIMUM QUANTITY THRESHOLD |
|---|----------------------------------|---------------------------------------|
| Three-month Canadian Bankers' Acceptance Futures Contracts (BAX): | | |
| 1 st four quarterly months – not including serial months | 5 seconds | 1 contract |
| Remaining expiry months and strategies | 15 seconds | 1 contract |
| | | |
| Thirty-day Overnight "Repo" Rate Futures Contracts (ONX): | | |
| Front month | 5 seconds | 1 contract |
| Remaining expiry months and strategies | 15 seconds | 1 contract |
| | | |
| Government of Canada Bond Futures Contracts: | | |
| All expiry months and strategies | 5 seconds | 1 contract |
| | | |
| S&P Canada 60 Index Futures Contracts (SXF): | | |
| All expiry months | 0 second | 100 contracts |
| All expiry months and strategies | 5 seconds | 1 contract |
| | | |
| Options on Three-month Canadian Bankers' Acceptance Futures Contracts (OBX): | | |
| All expiry months and strategies | 15 seconds | 1 contract |

| ELIGIBLE PRODUCTS | PRESCRIBED TIME DELAY | MINIMUM QUANTITY THRESHOLD |
|----------------------------------|------------------------------|-----------------------------------|
| Equity Options (1): | | |
| All expiry months and strategies | 30 seconds | 100 contracts |
| Index Options (1) : | | |
| All expiry months and strategies | 15 seconds | 50 contracts |
| Bond Options (1): | | |
| All expiry months and strategies | 15 seconds | 50 contracts |

Chronological priority of orders must be respected with regards to the posting of the originating order first, when executing a cross or prearranged transaction.

(1) Equity Options, Index Options and Bond Options Contracts

Equity options, index options and bond options are products for which market makers are assigned. In order to encourage the market making activities, cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

Procedure for transactions with a 50% guaranteed minimum (residual quantity equal or greater than the minimum quantity threshold):

The 50% execution guarantee applies only if the residual quantity (described below) is equal to or greater than the minimum quantity threshold.

The approved participant must contact a market official at 1-888-693-6366 or at (514) 871-7871 and provide details of the intended transaction: total quantity which must be equal to or greater than the minimum quantity threshold, price, side(s) of the transaction on which the approved participant is required to give priority.

The approved participant must ensure that all existing disclosed orders on SAM, regardless of type of orders, which are at limit prices better than or equal to the intended transaction price are executed before completing such transaction. The market official will ensure, in collaboration with the approved participant, that this requirement is met;

The **residual quantity** is the portion of the original quantity remaining after orders entered in the book with limit prices better than or equal to the intended transaction price have been filled. If no orders have been executed, the residual quantity is equal to the original intended transaction quantity.

If the residual quantity is less than the minimum quantity threshold, the approved participant must follow the procedure applicable to transactions with no minimum guaranteed volume, described further below.

If the residual quantity of the intended transaction is equal to or greater than the minimum quantity threshold, a market official will contact the market makers and inform them of the residual quantity covered by the transaction and the limit price. The market official will expose to the market makers active on the class the side of the transaction on which the approved participant is required to give priority.

Market makers will be permitted to participate to the transaction up to a total maximum of 50% of the quantity of the original intended transaction¹

The approved participant will be permitted to execute the transaction for the remaining quantity (a minimum of 50% of the residual quantity, plus any quantity not taken of the 50% of the original intended transaction quantity that had been shown to the market makers and to the market).

Procedure for transactions with no guaranteed minimum volume (residual quantity smaller than the minimum quantity threshold):

Approved participants wishing to make a cross transaction or a prearranged transaction must issue a Request For Quote (RFQ) for the total intended transaction quantity and must then respect a delay that is not less than the prescribed time delay applicable to the specific product before entering the orders into the trading system.

Sponsored Options

Cross transactions and prearranged transactions are not permitted on sponsored options listed on the Bourse.

MISCELLANEOUS

Eligible products, their respective minimum quantity thresholds and time delays will be modified from time to time in order to take into account the evolution of the trading environment and operational practices of the Bourse. A circular will be issued by the Bourse every time a modification or revision is made to either one of these criteria.

Bundling of orders to meet the minimum quantity threshold is not permitted.

¹*In the case where the total quantity requested by the market makers is equal to or less than the 50% of the quantity of the original intended transaction shown to them, each order will be executed entirely. If the total market makers' interest exceeds the quantity shown to them, each will receive the lesser of the following quantities: (a) an equal portion for each of them or (b) the quantity they requested. A market maker cannot increase the quantity allocated to him by proposing a price better than the intended transaction price. The quantity allocated to a market maker will not be based on previous executions relating to existing orders in the book at prices equal to or better than the intended transaction price.*



PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

- a) Once a block trade has been arranged, in accordance with the predetermined minimum quantity threshold level as determined and published by the Bourse, details of the block trade must be reported to the Bourse by contacting a market official of the Bourse's Market Monitoring Department at 1-888-693-6366 or at (514) 871-7871 within the period of time prescribed by the Bourse.
- b) Approved participants for both the seller and buyer must complete and submit the Block Trade Reporting Form (Attachment I) or such other notification as prescribed by the Bourse to a market official of the Bourse's Market Monitoring Department for validation.
- c) A market official will check the validity of the block trade details submitted by the approved participant(s).
- d) Confirmation by a market official of a block trade transaction will not preclude the Bourse from initiating disciplinary procedures in the event that the transaction is subsequently found to have been made other than in compliance with the rules.
- e) Once the block trade has been validated, the following information with respect to the block trade will be disseminated by the Bourse:
 - i) security(ies) or derivative instrument(s) and contract month(s);
 - ii) price of each contract month(s) and strike price(s) (as applicable); and
 - iii) volume of each contract month.
- f) Upon request by the Bourse the approved participant who arranges a block trade must provide satisfactory evidence that the block trade has been arranged in accordance with the Rules of the Bourse. Failure to provide satisfactory evidence of compliance with these Rules may result in the initiation of disciplinary action.

In accordance with article 6380 of the Rules of Bourse de Montréal Inc. (the “Bourse”), the following are the eligible securities and derivative instruments, the relevant prescribed time delays and the minimum quantity thresholds for the execution of block trades.

| ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS | PRESCRIBED TIME DELAY | MINIMUM QUANTITY THRESHOLD |
|---|---|-----------------------------------|
| | (As soon as practicable and in any event within the following time delay) | |
| Three-month Canadian Bankers’ Acceptance Futures Contracts (BAX): | 15 minutes | 5 000 contracts |
| Thirty-day Overnight “Repo” Rate Futures Contracts (ONX): | 15 minutes | 1 000 contracts |
| Ten-year Government of Canada Bond Futures Contracts (CGB): | 15 minutes | 1 000 contracts |
| Two-year Government of Canada Bond Futures Contracts (CGZ): | 15 minutes | 3 000 contracts |
| Options on Three-month Canadian Bankers’ Acceptance Futures Contracts (OBX): | 15 minutes | 2 000 contracts |
| | | |

Block Trade Reporting Form

Approved participants must complete all sections of this form legibly and accurately.

This form is to be completed and faxed to Market Monitoring at (514) 871-3592.

A market official can be reached at 1-888-693-6366 or at (514) 971-7871.

| | |
|--|--|
| TIME AND DATE OF TRADE: | |
| EXECUTING PARTICIPANT NAME AND TRADING ID (BUY): | |
| CLEARING FIRM NAME AND ID (BUY): | |
| EXECUTING PARTICIPANT NAME AND TRADING ID (SELL): | |
| CLEARING FIRM NAME AND ID (SELL): | |
| CONTACT PHONE NUMBER: | |
| CONTACT FAX NUMBER OR E-MAIL ADDRESS: | |

| Derivative Instruments | Future Contract/ Call/ Put | Contract Month | Option Strike Price (if applicable) | Number of Contracts | Price | Strategy Type* (if applicable) |
|------------------------|----------------------------------|----------------|--|---------------------|-------|-----------------------------------|
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For Montréal Exchange Staff Only:

Time and Date of receipt:

Montréal Exchange authorized signature:

The details on this form are accepted by the Montréal Exchange strictly on the understanding that the Montréal Exchange accepts no responsibility nor liability for the accuracy or completeness of the details as provided by the approved participant.

* Each leg of a strategy trade should be listed separately.