☒	**Trading – Interest Rate Derivatives**	☒	**Back-office - Options**
☒	**Trading – Equity and Index Derivatives**	☒	**Technology**
☒	**Back-office – Futures**	☒	**Regulation**

CIRCULAR
January 27, 2005

CROSS TRANSACTIONS, PREARRANGED TRANSACTIONS AND BLOCK TRADES

On January 19, 2005, Bourse de Montréal Inc. (the Bourse) published the circular no. 011-2005 regarding the new Rules and Procedures on Cross Transactions, Prearranged Transactions and Block Trades which will be effective on January 31, 2005. Before these new regulations were approved by the Autorité des marchés financiers, a public comment period was held. The Bourse publishes a summary of the public comments and its response.

If you have any questions on this public comment process, please contact Joëlle Saint-Arnault, Vice-President, Legal Affairs and Secretary, at (514) 871-3528 or at jstarnault@m-x.ca.

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

Circular no.: 014-2005

Comments Author	Comments	Reply to Comments
Group of 34 actual and former restricted trading permit holders (the letter of comments was signed jointly by 34 individuals who are currently or were formerly restricted trading permit holders. These persons are all currently trading for their own accounts derivatives instruments listed on the Bourse. Two of these individuals, Charles Roberton and Claude Jr. Cantin, provided supplemental individual letters of comments. Finally six others also signed a separate joint letter of comment. See further below for the comments expressed in these comment letters))	**Article 6306 – Manipulative or Deceptive Methods of Trading** The language of this article is excessively ambiguous and would need to be clearer in order to ensure enforceability and avoid random interpretation. For example, paragraph a) which reads as follows: *"a) effecting a transaction or a series of transactions or posting purchase or sale orders on securities or on derivatives instruments traded on the Bourse alone or with one or more persons, intentionally or repeatedly and with the objective of obtaining an advantage;"* would require a better language in order that any sense may be construed of it and specifics should be properly defined.	In order to make the language of paragraph a) of article 6306 clearer, the Bourse changed the wording as follows: *a) effecting a transaction or a series of transactions or posting purchase or sale orders on securities or on derivatives 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;*
	In paragraph e) which reads as follows: *"e) entering orders or effecting transactions with the purpose of triggering stop orders;"* the Bourse should clearly define the method by which it intends to determine a trader's "purpose". How will the Bourse determine that there was an intent to trigger a stop order? How will the Bourse interpret triggering of stop orders and how can it be assured that it will be consistent in its interpretation? Suggests that a text similar to the following should be included in the wording of this paragraph: *"selling at a new price while being on the bid at that same price in order to benefit from a stop order."*	The triggering of stop orders does not constitute de facto a violation of the Rules. What is important is the way it is done. For example, "fishing for stops" by posting successively lower priced purchase orders with the purpose of triggering a legitimate sale stop order, setting a price that does not reflect current market conditions and then taking advantage of such triggering would be considered by the Bourse as a manipulative practice. In order to eliminate any risk of misinterpretation and considering changes suggested above for paragraph a) of article 6306 , the Bourse came to the conclusion that it could delete paragraph e) of article 6306 on triggering stop orders.
	Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades Block trades should be listed as strategies for a predetermined period of time so that the market may bear witness to and/or participate/compete in all transactions. Market participants should have a window of opportunity by which they may, at least partially, participate in any prearranged block trade executed outside of the market. Block trades should be allowed but not to the exclusion of any participant.	Listing block trades as suggested would defeat the purpose of the proposed block trade rules. Block trades involve large quantities and posting them on the market before their execution could have a disruptive effect.
	No market participant should be excluded, regardless of its capital or position. Regarding prenegociation discussions, these are exclusionary. Prenegociation should be designed to allow the entire market to bear witness and to	Two of the major characteristics of trading in a centralized marketplace are (1) transparency and (2) anonymity for participants. What is proposed would eliminate both these characteristics.

	participate. It is recommended that the Bourse puts in place a "chat forum", accessible to all market participants where it would be required by regulations to discuss fixed trades. Comment letter also states that the independent traders community, although representing 40% of the trading activity on the Bourse, was not consulted and therefore protest against any system or rule implementation that would allow their exclusion from participation in block trades.	 The Bourse consulted the community. Discussions were held as part of the Bourse's ongoing consultation process on the matter of block trades.
J.P. Morgan Futures, Inc. (New York)	**<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>** Block trading will be of benefit because it will provide an alternative procedure to facilitate execution of large orders that will enhance the ability of the market to meet the needs of institutional participants.	 The Bourse is in agreement with the comment which is consistent with the position it adopted.
Charles Robertson (Mr. Robertson was also one of the 34 persons who signed the joint comment letter mentioned above)	**<u>Article 6306 – Manipulative or Deceptive Methods of Trading</u>** Proposed wording is as ambiguous as the existing one. The Bourse must have rules that are clear and enforceable and that can be applied with a clear enforceable methodology. **<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>** For cross transactions and prearranged transactions, there should be a requirement to show the client side of the order first. Allowing block trading will cut the market out and leave trading only to the large banks and their captive clients and the idea of a fair and equitable market will cease to exist. There will be no more price discovery and free flow of information.	 Comment was addressed. See amended wording in paragraph a) of article 6306 and deletion of paragraph e) discussed above. See also amended wording to paragraph f) of this same article discussed further below. Article 6374 of Rule Six of the Bourse, Management of Priorities, requires that the chronology of receipt of orders be respected. If it happens that firm and client orders are received simultaneously, the client order has priority unless client waives his priority in writing. The Bourse is of the view that block trading activity will lead to higher overall futures volume over time because, as it has been observed on markets that allow block trades, it is common for positions opened via block trades to be closed out sooner or later in the central market. Also, information contained in a block transaction may be reflected in the central market's price posting ahead of the public disclosure of the transaction through the order flow generated by the hedging activity of block trade participants. In addition, the Bourse's view is that if it does not facilitate block trades, these will continue to be done in the OTC market where participants will not ever see them in terms of public reporting. The Bourse has proposed dissemination of all block trades (prices and

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		volumes) to the public, making them more transparent and thus enhancing the free flow of information to the market. Allowing block trades to be done in the context of the Bourse's rules is a better form of service to the industry than forcing everything to be done OTC.
	Size of block trades is too small should be increased at least threefold.	The minimum threshold levels for block trades have been set at a size at or above which displaying an order to the market could be, in the opinion of the Bourse, disruptive to the market. In general, the Bourse has set the minimum threshold level large enough for each product so that it represents a "*marked departure*" from the size of otherwise larger orders that can be readily observed as being executed in that market.
	Proposed time delay of 15 minutes to report transactions to the Bourse is too long. Should rather be 5 minutes.	In light of the minimum volume threshold levels set by the Bourse, the proposed disclosure period of 15 minutes has been established in order to give sufficient time for block trade participants to unwind (hedge) their risk prior to the market reacting to the large trade.
	Who will determine that a price is "fair and reasonable"?	The responsibility of determining whether a price is fair and reasonable lies with the market participants negociating the block trade within the parameters of the Bourse's "fair and reasonable price" guidelines found in paragraph 4) v) of article 6380. This provides flexibility to market participants while allowing the Bourse to review and validate the price of the block trade, as the Bourse has the ability to obtain from the block trade participants any necessary documentation. Therefore, the onus is on market participants involved in the block trade to justify to the Bourse the price of the block trade. The possibility for the Bourse to reject a block trade that it considers not having been made at a "fair and reasonable price" should effectively prevent block trades from being made at prices that are far away from the central market prices.
	What will be the sanctions for trading infractions?	All block trades must comply with the block trade rules and procedures established by the Bourse. Disciplinary penalties that may be imposed if requirements are not followed are enumerated in article 4105 of Rule Four of the Bourse.

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Brian Long	**<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>**	
	Allowing block trading outside the bid/ask spread will disadvantage the people who supply liquidity to the market on a continuous basis. This will lead those who supply liquidity to no longer show their orders for fear of arbitrage and the market will deteriorate.	The position of the Bourse on block trades was summarized previously. The "fair and reasonable" price guidelines for executing a block trade should prevent the "picking-off" of orders sitting in the order book with the intent of arbitraging client order flow.
	As a solution, commenter suggests to adopt the same approach as the New York Stock Exchange which requires that block trades executed outside of the bid/ask spread must first fill any bids/offers which are booked inside the block trade price. These bids/offers must be filled at the same price as the block trade.	The NYSE block trade rules are best suited to the underlying stock market. The stock market has its own dynamics and practices that are distinct from the futures and options markets. In addition, the proposed suggestion does not fit within the international standards for block trading rules adopted by derivatives exchanges (see international benchmarking that was included as an Appendix to the request for comments published by the Bourse).
TD Newcrest, Equity Division of TD Securities Inc.	**<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>**	
	The minimum quantity threshold for block trades in the SXF futures contract should be reduced from the proposed 250 contracts to 100 contracts. This would not dramatically affect the liquidity.	Following concerns expressed by the regulators, the Bourse amended its proposal to exclude block trades on the SXF and sectorial index derivatives for the time being. Further discussions will be held regarding the opportunity to allow or not block trades on these types of derivatives.
	Proposed subparagraph 4) iv of article 6380 which prohibits aggregation of orders in order to meet the minimum volume threshold for block trades should be eliminated and aggregation be allowed if all participants involved in the intended transaction consent to a prenegociated transaction. This would allow to better harmonize the Bourse's rule structure with the current practices and conventions of the cash equity market.	The Bourse will not permit the aggregation of separate smaller orders in order to meet the minimum volume threshold for block trades for two reasons: 1. Smaller orders, which are below the minimum volume threshold level, are not considered market disruptive and thus the central market can easily accommodate such orders in the order book; and 2. The aggregation of smaller orders may have the negative effect of removing liquidity from the central order book.
J.P. Morgan Securities Canada Inc.	**<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>**	
	The Bourse should consider setting its block trading threshold to be in line with market volumes. For example, the 5,000 contracts threshold limit for the BAX futures contract, the 2,000 contracts threshold	In determining the minimum volume threshold levels for each product, the Bourse established levels which are considered a marked departure from the size of other large orders that can be readily executed in the

	limit for the OBX futures contract option and the 1,000 contracts threshold limit for the CGB futures contracts are extremely high in relation with the market volume for these products.	market in the course of trading as opposed to orders which are considered as ordinary or in line with market volumes. The Bourse is of the view that by setting the minimum volume threshold levels high it will keep as much business as possible in the order book.
	If the Bourse does not wish to lower its threshold limits, it should then consider using crossing rules similar to those of the LIFFE. Pursuant to these rules, a Request for Quote (RFQ) is sent to the market. A waiting period of 5 seconds for futures contracts, 15 seconds for commodity options and 10 seconds for other options is then applied. After these prescribed delays, the two sides of the order must be entered immediately (i.e. within 30 seconds of original entry of RFQ).	The Bourse will consider the possibility of establishing a Request for Quote (RFQ) process related to crosses.
Claude Jr. Cantin (Mr. Cantin was also one of the 34 persons who signed the joint comment letter mentioned above)	**<u>Article 6306 – Manipulative or Deceptive Methods of Trading</u>** Letter questions the meaning of the expression “justified by market conditions” in paragraph d). If a security is bid or offered at a new executable high or low, why the transaction could not be put through?	The purpose of paragraph d) of article 6306 is not to prohibit new executable highs or lows when these occur in the normal course of trading. The purpose is to prohibit creating these new highs or lows when there are no existing conditions to justify them. It would not be practical for the Bourse to attempt to define in the Rules what is meant exactly by the expression “justified by market conditions”. Each situation is particular and requires evaluating each and every aspect of the circumstances that led to the creation of a new high or a new low (e.g.: actual or expected economic or financial news, trading activity, current volatility of markets on the underlying, etc.).
	Paragraph e) (entering orders and effecting transactions with the purpose of triggering stop orders) is superfluous and detrimental to price discovery.	It is proposed to delete paragraph e) of article 6306 on triggering stop orders as it is covered by paragraph a) of article 6306 . See comments above regarding these two paragraphs.
	Since in any transaction a financial advantage is transferred *de facto*, paragraph f) should rather be worded so that it provides that a prearranged transfer of funds (rather than transfer of a financial advantage) is not permitted.	It is proposed to clarify paragraph f) of article 6306 by wording it so that it be clearer that the Bourse wants to prohibit trades that are done with the purpose of circumventing any legal requirements. Proposed changes are as follows: *f) entering orders or effecting a transaction with the purpose of transferring <u>funds, assets or liabilities in violation of legal or regulatory requirements</u>.*

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	<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>	
	Prearranged transactions resulting from negotiations away from the market are unequivocally detrimental to the establishment of a fair and representative price for any security. Block trades are especially bad since the new proposed rules basically give a "carte blanche" to all firms to arbitrage their client flow and all other non-informed market participants. Proposed rule change risks to unfairly tip the balance of power toward executing firms to the detriment of clients and independent traders.	The Bourse is of the view that the purpose of a block trade is for the transaction to occur at a price that is considered representative for an order of that type and size. The "fair and reasonable" price for any contract will be applicable to transactions whose size are deemed market disruptive within the normal course of trading activity. In addition, the information contained in a block transaction may be reflected in the central market's price posting ahead of the public disclosure of the transaction through the order flow generated by the hedging activity of block trade participants. This ensures that the pricing discovery process is enhanced rather than diminished. The order flow created in the order book from the hedging activity will be to the benefit of all participants as it will give everyone the opportunity to participate.
	Commenter is concerned by how the fair assessment of the time delays or the minimum quantity threshold will be ensured by the Bourse.	The Bourse's market officials have the authority to refuse any block trade if the transaction does not meet the pre-established criteria. Market officials have the responsibility to ensure that all block trades are priced properly with verifications performed based on the information that will be submitted by the approved participant responsible for the transaction. This information must be faxed or e-mailed to the Bourse's market monitoring department. The Bourse will keep all this information for a period of 7 years. The Bourse has in place procedures that ensure that time delays and quantity thresholds are determined and set in all fairness and that they cannot be arbitrarily changed without being justified by market conditions and/or a general demand from market participants.
	Also has concerns as to how the "fair and reasonable" pricing benchmark will be established.	Similar question and answer covered in another section above.
	Allowing off-exchange block trades could result in a warped flow of information, manipulated prices, less transparency and arbitrage of clients order flow. Block trading will impair the free flow of information to market participants and make it impossible for them to position themselves since the execution of block trade will be hidden from the market.	The Bourse's view is that if it does not facilitate block trades they will be done in the OTC market where participants would not see them in terms of public reporting. This is why the Bourse is proposing the public dissemination of all block trades (prices and volumes) making them more transparent, thus enhancing the free flow of information to the market. Allowing block trades to be done in the context of the Bourse's rules is a better form of service to the industry than forcing everything to be done OTC.
	Suggests to create a committee composed of approved	The Bourse is of the view that it is its responsibility to

	participants, independent traders and clients to periodically review and approve appropriate time delays, disclosure and quantity thresholds.	determine appropriate delays and disclosure and quantity thresholds based on market conditions that are monitored on a continuous basis. The ultimate objective of the Bourse is to procure a more liquid market.
	Suggests creating an electronic billboard that would display request for quotes for block trades to the whole market.	Two of the major characteristics of trading in a centralized marketplace are (1) transparency and (2) anonymity for participants. The suggestion of the creation of an electronic billboard would eliminate both these characteristics.
	Suggests that all prearranged trades should display the client side of an order first since that is the side that is the most likely to be arbitraged.	Article 6374 of Rule Six of the Bourse, Management of Priorities, requires that the chronology of receipt of orders be respected. If it happens that firm and client orders are received simultaneously, the client order has priority unless client waives his priority in writing.
Steve Metaxas, Amon Baazov, David Love, George Azimov, François Joly-Dubois, Martin Chevrier and David Steiner – Joint letter (all these persons, except David Love, were also signatories of the comment letter signed by a group of 34 individuals – see above)	**Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades**	
	Consider that allowing prenegociation discussions will be discriminatory since a limited number of participants will benefit from client order flows. This will result in trading with insider information and will open front-running opportunities. Eventually clients will have to pay a higher price.	Front running an order can occur regardless of whether or not pre-negotiation discussions can take place. Front running is prohibited by the Rules of the Bourse.
	For crosses, the current 5 seconds exposure time delay is too short giving participants barely the time to react in front of a proposed cross price. A time delay of 10 to 15 seconds would ensure a fairer cross price since it would allow more market participants to show their interest. This would result in a better transparency and liquidity and better assurance that clients are obtaining the best price rather than a "shopped" price.	In a dynamic futures market, 5 seconds is considered a lengthy amount of time. In addition, the time delay proposed by the Bourse is in line with international standards. International benchmarking was published with the Bourse's request for comments.
	Allowing block trades will take away orders from the market, creating an OTC market and denying other market participants the opportunity to participate. Block trades will also have a negative impact on price action, liquidity, volatility and interest of other parties who want to trade large quantities. Commenters disagree with the Bourse's opinion that large orders create unnecessary price gaps and volatility. The proposed rules will eventually lead the Bourse to become more of an OTC market.	As capital markets continue to evolve and grow, professional investors are increasingly looking for more efficient ways to transact large orders. Many important investors ignore exchange markets that do not permit large orders to be transacted with certainty of execution, preferably at one price. As a result, this business is often transacted away from the exchange. In situations where a market is not sufficiently accommodative to permit large orders, upstairs or non-centrally traded markets generally grow in relevance. In general, upstairs markets have seen increased activity in recent years, principally because they minimize the cost and uncertainty associated with transacting large orders relative to similar transactions in central markets. To accommodate these large transactions in the central market, the Bourse proposes to permit approved

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		participants to arrange large volume transactions away from the electronic central market that might otherwise potentially negatively impact the organized electronic market. These are large orders that would never appear in the Bourse's central market. When a market cannot effectively assimilate such large orders, price gaps occur often resulting in unnecessary and unhealthy volatility. The purpose of block trades is to allow participants to rapidly receive a single price on a large transaction and avoid the uncertainty of executing multiple smaller transactions at different prices through the central order book (i.e.: rapid and efficient execution). The Bourse does not intend to become an OTC market. The Bourse's central market will continue to be the primary method for trading the Bourse's products.
	Block trading will also allow participants to "pick off" existing orders in the electronic system further reducing the willingness of traders to post bids/offers in the electronic book and thus further reducing liquidity. It will diminish the role of the organized market as it benefits a limited number of participants and will only encourage firms to increase the practice since they will enjoy the benefits i.e. worse prices for their clients and thus better prices for them with no competition.	The "fair and reasonable price" guidelines for executing a block trade should prevent the "picking-off" of orders sitting in the order book with the intent of arbitraging client order flow. Block trades are not a threat to liquidity. On the contrary, they can increase liquidity as was previously explained. These trades do not appear on the organized market for the time being because they are strictly completed OTC. Therefore, no one is affected by the allowance of block trades that will result with a higher visibility of trades on the organized market.
	Comment letter also states that the independent traders community, although representing 20% of the trading activity on the Bourse, was not consulted.	Similar question already answered in another section above
	Although proposed rules may be consistent with those of other major exchanges, they are not necessarily in the best interests of clients, especially when considering the limited liquidity and volume of the Bourse's market when compared with these other exchanges.	On the contrary, the Bourse is providing an alternative solution to clients who wish to arrange and transact orders of significant size, tailored to their individual needs without delay and with certainty of price and execution. This minimizes the price impact and time delays that may occur when transacting orders of large size in the electronic trading platform. Block trading complements the Bourse's central market, which continues to be the primary method for trading the Bourse's products.

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RBC Capital Markets	**<u>Article 6306 – Manipulative or Deceptive Methods of Trading</u>**	
	The end of paragraph a) which reads "…*with the objective of obtaining an advantage"* at the end needs either a language change or to be taken out. There is no similar language in UMIR and it is much too subjective. At the minimum, the term "advantage" should be defined or examples provided in a companion policy.	See previous answer.
	The end of paragraph f) which reads "…*with the purpose of transferring a financial advantage…"* at the end needs either a language change or to be taken out. There is no similar language in UMIR and it is much too subjective. At the minimum, the term "advantage" should be defined or examples provided in a companion policy. Perhaps the word "advantage" should be replaced by "benefit".	See previous answer.
	<u>Article 6377 – Keeping Records of Orders</u>	
	Paragraph 2 requires a retention period of five (5) years for executed orders and paragraph 4 requires a retention period of seven (7) years for unexecuted orders. Retention periods should be identical.	The Bourse is in agreement. Amendments have been made to set retention periods for all orders at 7 years. This is uniform with Universal Market Integrity Rules (UMIR).
	In subparagraph 5) i) the retention period for phone recordings should be decreased to 3 months instead of the current one year requirement. Three months is sufficient in an electronic market where electronic logs are available longer. Clarifications would also be required regarding who exactly should be recorded.	This subparagraph was not part of the subject matter of the proposed amendments and did not undergo any modification. However, the suggestion is duly noted and shall be dealt with at a later time.
	<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>	
	There is a discrepancy between pre-arranged transactions which are to be effected between the best bid/best offer on eligible securities or derivatives instruments and block trade transactions which do not have to respect the best bid/ best offer. Commenter believes that all pre-negotiated crosses regardless of size must respect the prevailing market and previously disclosed orders.	For cross trades, all market prices must be strictly respected and all orders in the order book must be filled. As far as block trades are concerned, because they are considered market disruptive, there would be no advantage to execute such a trade at the prevailing prices and quantities in the order book.
	The block trade rule does not accurately address the interference for block trades and is inconsistent with the treatment of crosses. In the "Procedures applicable to the execution of cross transactions and the	Block trades are different and must be regulated differently.

	execution of prearranged transactions" there is a reference to ensuring "*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 prices are executed before completing such transactions*". However, based on a reading of the rules, it appears that a block trade could be executed below the current bid or above the current offer without interference.	
	<u>Procedures applicable to the execution of cross transactions and the execution of prearranged transactions</u>	
	The procedures should be simplified with regard to the prescribed time delay which, for simplicity, should be 5 seconds for all futures contracts. It is not important to have more time for the back months, since either the trader will be watching them on his screen or not and the extra time will not be necessary. All options related prescribed time delays should be consistent at 15 seconds.	As liquidity may be compromised for back months, a longer reaction time is warranted for these futures contract months. For equity options, in order to facilitate for the market participants the management of the numerous classes and series of options that are listed, it was deemed reasonable to allow more time than 15 seconds.
	It is crucial to highlight the chronological priority of orders which must be respected with regards to the posting of the originating order first, when executing a cross or pre-arranged transaction in equity options.	The Bourse is in agreement as it is consistent with the position adopted by the Bourse in article 6374 on Management of Priorities.
	Cross transactions should not be allowed to trade inside minimum tick spreads standards which participants can post orders.	It is not possible to execute trades on the electronic trading system in anything else but minimum tick intervals.
	<u>Procedures for the execution of block trades</u>	
	Minimum quantity thresholds for crosses are already established for certain products and do not require further block trade rule exemptions. This already satisfies the ability of participants to enable crosses and block trades at or inside the quoted market.	Cross trades and block transactions are different and regulated differently as explained previously.
	Block trades outside the quoted market without satisfying better priced and prior time orders should not be allowed for the Equity based products; SXF, Sectorial Futures and Equity Options. The current rules related to crossing these products suffice and just because the order is larger should not give it a right to not respect and satisfy the central market.	Following concerns expressed by the regulators, the Bourse amended its proposal to exclude block trades on the SXF and sectorial index derivatives for the time being. Further discussions will be held regarding the opportunity to allow or not block trades on these types of derivatives.
	Commenter would support the Block trade facility for interest rate futures products only where a current cross facility is not available.	Rules applicable to block trades apply similarly to all futures contracts.

	More clarity is required on procedures and the definition of "fair and reasonable" as this is far too subjective.	See previous answer referring to paragraph 4) v) of article 6380.
	Block trade quantities should be modified as follows in light of various liquidity of the different markets: BAX – 3000 contracts front month, BAX (back months) - 1000 contracts, CGZ – 1500 contracts, SXF – 1000 contracts, Sectorial Index Futures – 500 contracts, Options on BAX (OBX) – 500 contracts.	See previous answer regarding quantity threshold for block trades. Concerning index derivatives, block trades will not be allowed for the time being.
	The requirement for options crosses that reads as follows in the "Procedures applicable to the execution of cross transactions and the execution of prearranged transactions" : "*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.*" should apply for all block trades. This should include allowing the market makers to declare their interest at prices that are less than the standard tick levels, since they are not able to post split price orders currently.	See previous comment on the difference between block trades and cross transactions.
BMO Nesbitt Burns	**<u>Article 6377 – Keeping Records of Orders</u>**	
	Concerning paragraph 2, the Bourse should clarify which records will be retained by the Bourse versus those that will be the responsibility of the approved participants or clients. For example, the Bourse currently maintains the records of time of execution for cross transactions or pre-arranged transactions. Is it contemplated that approved participants and clients with electronic access should duplicate this portion of the record keeping?	Article 6377 is applicable to approved participants and it is their responsibility to maintain all records referred to in paragraph 2 of article 6377 as they are necessary in order to conduct audits and examinations. The Bourse does not regulate clients of approved participants regarding record retention requirements.
	Is the time-stamping requirement in paragraph 3 intended to reinforce the requirements of paragraph 2 which specify that "*The record of each order executed must indicate … the time the order was received, the time it was entered into the electronic trading system of the Bourse, … its tome of execution, …*" or is it intended to be an additional requirement?	The time stamping requirements in paragraph 2 of article 6377 make reference to executed orders only while paragraph 3 makes reference to all orders.
	With respect to clients of an approved participant who send orders through their own electronic terminal, it is not clear what their additional record keeping responsibilities are.	Article 6377 does not apply to clients of approved participants.
	There is a discrepancy between paragraph 2 which	The Bourse is in agreement. Rule proposal has been

	requires a retention period of five (5) years for executed orders and paragraph 4 which requires a retention period of seven (7) years for unexecuted orders.	amended to establish retention periods for all orders at 7 years which is uniform with UMIR requirements.
	<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>	
	In Section 2 (Cross Transactions), it would be appropriate to provide explanatory wording with respect to how a cross transaction must be displayed to the market for the prescribed minimum time. It is not clear if one side of the trade or both sides are to be displayed to initiate the process.	The Management of Priorities requirements of article 6374 apply. This was discussed in another section above.
	If both sides are client trades and only one side is to be displayed, what is the appropriate way to determine which order goes first?	See above
	In Section 3 (Prearranged Transactions) reference is made only to approved participants. The description should be expanded to include clients.	Block trades can only be introduced by approved participants of the Bourse.
	This Section would also benefit from some clarification of the distinction between cross trades and prearranged transactions and between block trades and prearranged transactions. Examples would be helpful.	The Bourse considers that the proposed rules and the applicable procedures are clear enough to make the distinction between the various types of transactions.
	Section 4 (Block Trades) refers to block trades that involve the trading of two or more different securities where the strategy involves two or more different contract months. For clarity, direct reference to the strategy of trading from a front month futures contract to a back month futures contract (the "roll") should be included.	Direct reference that the Bourse will not permit "roll" business to occur is found in paragraph 4) vii) of article 6380. It is stated: "*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.*" Therefore, block trading will not be permitted for the purpose of rolling positions from one contract month to the next.
	<u>Procedures for the execution of block trades</u>	
	The current minimum quantity for SXF futures contracts is 100 contracts. Increasing it to 250 contracts is significantly more restrictive. The minimum quantity should be 100 contracts.	Following concerns expressed by the regulators, the Bourse amended its proposal to exclude block trades on the SXF and sectorial index derivatives for the time being. Further discussions will be held regarding the opportunity to allow or not block trades on these types of derivatives.
Simon Romano	**<u>Article 6380 – Prenegociation Discussions, Cross Transactions and Block Trades</u>** Paragraph 4 (block trades), by requiring Bourse's agreement, would appear to create substantial uncertainty as to whether a transaction could be	Transactions will be presumed valid if the information given to the Bourse market monitoring staff by the

	completed. If the transaction is bona fide, it should be presumed to be valid in order to encourage transactions to be made via the Bourse and to ensure that Bourse's participants are not at a competitive disadvantage.	approved participants conforms with the requirements set by the Bourse for block trades.
	Subparagraph (4) (i) should allow for after-hours and non-business days arrangements to best allow competitive markets to function. This is especially true for block trading involving sophisticated clients. Comment refers to Part VI of Companion Policy 23-101 of National Instrument 23-101 ("Trading Rules") which permits marketplaces to have after-hours trading at any prices.	The possibility of allowing after hours arrangements was considered by the Bourse and it was decided not to permit it for the time being. Market conditions are not favourable.
	Commenter presumes that subparagraph (4) (vi) is intended to clarify that there will be no interference or trade through issues vis-à-vis block trades. This should be clarified.	This interpretation is correct. Subparagraph 4) (vi) is effectively a clarification whose intent is to confirm that a block trade will not trigger any other transaction in the order book.