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CIRCULAR 015-18
February 2nd, 2018

SELF-CERTIFICATION

**AMENDMENTS TO ARTICLE 6380C OF THE RULES OF BOURSE DE
MONTREAL INC.**

REGULATORY MATTER FORMERLY KNOWN AS

**AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION
OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED
TRANSACTIONS OF BOURSE DE MONTREAL INC.**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “Bourse”) has approved amendments to the Procedures applicable to the execution of cross transactions and the execution of prearranged transactions (the “Procedures”). On January 17, 2018, after market close, the Procedures have been incorporated into Article 6380c of the Rules of the Bourse.

These amendments will impact the futures contracts on the S&P/TSX indices and on the FTSE Emerging Markets Index. These amendments, as attached, were self-certified in accordance with the self-certification process as established in the Derivatives Act (CQLR, Chapter I-14.01).

The revised version of Article 6380c, as attached, will become effective on February 9, 2018, after market close. Please note that the revised version of Article 6380c will also be available on the Bourse’s website (https://www.m-x.ca/accueil_en.php).

The rule changes described in the present circular were published for public comment by the Bourse on September 26, 2017 (see [Circular 137-17](#)).

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6380c. Prearranged transactions.

1) In general.

For the purpose of this article, “communication” means any communication for the purpose of discerning interest in the execution of a transaction prior to the exposure of the order to the market. Any communication that relates to the size, side of market or price of an order, or a potentially forthcoming order, constitutes a communication to prearrange a transaction.

The parties to a transaction may engage in communications to prearrange a transaction on the electronic trading system in an eligible derivative in the minimum amount specified where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the transaction, in accordance with the following conditions:

- i) A customer must consent to the Approved Participant engaging in prearranging communications on the customer’s behalf. The consent of the client, in whatever form, must be communicated to the Bourse upon request;
- ii) After the first order for the prearranged transaction is entered into the electronic trading system the parties may not enter the second order for the prearranged transaction until the following specified time period has elapsed as follows:

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
Three-Month Canadian Bankers’ Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Thirty-Day Overnight “Repo” Rate Futures Contracts (ONX):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Overnight Index Swap Futures Contracts (OIS):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Government of Canada Bond Futures		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX		
All expiry months <u>and strategies</u>	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months <u>and strategies</u>	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO2e) Units:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on Canadian Crude Oil		
All expiry months and strategies	5 seconds	No threshold
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts:		
All expiry months and strategies	0 second	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):		
All expiry months and strategies	0 second	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Equity, ETF and Currency Options:		
All expiry months	0 second	≥ 100 contracts
All expiry months	5 seconds	< 100 contracts
All UDS Strategies	5 seconds	No Threshold
Index Options:		
All expiry months	0 second	≥ 50 contracts
All expiry months	5 seconds	< 50 contracts
All UDS Strategies	5 seconds	No Threshold
Canadian Share Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures and Options on Futures Inter-Group Strategies		
All strategies	5 seconds	No threshold

- iii) The party that initiates communication regarding a prearranged transaction shall have his or her order entered into the electronic trading system first, unless the parties as part of their negotiation agree otherwise. The consent of the client, in whatever form, must be communicated to the Bourse upon request; provided however, that in a prearranged transaction between an Approved Participant and a customer for an equity, ETF or index option, the customer's order shall always be entered into the electronic trading system first, regardless of which party initiated the communication.

- iv) Limit orders resting in the electronic trading system at the time that the first order of the prearranged transaction is entered at or better than the price of the first order shall be matched with the first order entered. Any residual, unfilled amount of the first order may be matched against the second order of the prearranged transaction when the second order is entered.
 - iv) Parties may not aggregate unrelated orders to meet the minimum threshold for a prearranged transaction.
 - v) The parties to the prearranging communications shall not disclose to any other party details of the negotiation or otherwise enter an order to take advantage of the negotiation during such communications except as permitted in this article.
- 2) **Committed Orders.** Committed orders may not be used to execute any transaction under article 6380c or article 6380f having a prescribed time delay, or to execute strategies, and may be used for such transactions only for the following products subject to the minimum quantity threshold:

ELIGIBLE DERIVATIVES FOR COMMITTED ORDERS	MINIMUM VOLUME THRESHOLD
Futures Contracts on S&P/TSX Indices	100 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts	250 contracts
Equity, ETF and Currency Options	100 contracts
Index Options	50 contracts
Canadian Share Futures Contracts	100 contracts

- 3) **Transactions on eligible products with a prescribed time delay.** The parties may engage in communications to prearrange a transaction on the electronic trading system or via the User Defined Strategy Facility (UDS) where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the transaction, in accordance with the conditions in paragraph 1 of this article 6380c; *provided however:*
- i) in the case of a prearranged transaction that is between the bid and ask on the electronic trading system and for an amount at or greater than the minimum threshold, the parties in their discretion may enter the prearranged transaction as a committed order with no delay, subject to the conditions in paragraph 2 of article 6380c; or
 - ii) in the case of a prearranged transaction that is on or between the bid and ask on the electronic trading system and for an amount at or greater than the minimum threshold, the parties enter the first and second orders of the prearranged transaction with no delay between the two, but nevertheless subject to execution risk (including the priority given resting limit orders at or better than the prearranged price).

4) Equity, ETF, Index and Currency Option Transactions With 50% Guaranteed Minimum

The parties to an option strategy transaction may engage in communications to prearrange the transaction where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the transaction, in accordance with the following conditions:

- i) market makers are permitted to participate on the transaction up to a total maximum of 50% of the volume of the intended transaction;
- ii) each Approved Participant must contact a Market Supervisor and provide details of the intended transaction including total quantity, price, side(s) of the transaction, a description of the legs comprising the strategy and identification of the agreed counterparty; and
- iii) the Approved Participant will be permitted to execute the transaction for the remaining volume (a minimum of 50% plus any volume not taken of the 50% that had been offered to the market makers).