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

CIRCULAR 043-15
May 7, 2015

SELF-CERTIFICATION

IMPLEMENTATION OF COMMITTED ORDERS

AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND PRE-ARRANGED TRANSACTIONS

AND

AMENDMENTS TO ARTICLES 6121 AND 6369 OF RULE SIX

The Rules and Policies Committee (the "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 Pre-Arranged Transactions* (the "Procedures") and to articles 6121 and 6369 of *Rule Six* of the Bourse in order to implement committed orders for eligible options and futures contracts listed on the Bourse. The implementation of committed orders would facilitate the electronic execution of prearranged transactions and cross transactions.

The amendments to the *Procedures* and articles 6121 and 6369, as attached, will take effect on **June 26, 2015**. Please note that these articles will also be available on the Bourse's website (www.m-x.ca).

The rule changes described in this circular were published for public comment by the Bourse on October 11, 2011 (Circular 155-11). A summary of the comments received as well as responses from the Bourse to these comments are appended.

For additional information please contact Gladys Karam, Director, Equity Derivatives, by telephone at (514) 871-7880 or by email at gkaram@m-x.ca.

Sabia Chicoine
Legal Counsel, Legal Affairs, Derivatives

Section 6121 - 6140
Types of Orders

6121 Standard Nomenclature
(10.10.91, 20.04.98, 26.06.15)

To be valid, an order must specify the name or symbol of the listed security, whether the order is to buy or sell and the number of units to be traded, as well as explicit instructions regarding the trading price and conditions which must be met prior to the order becoming effective. All orders are deemed to be day orders, unless otherwise specified.

Definitions:

a) Market order

An order to buy or sell which must be executed promptly at the best price obtainable.

b) Limit order

An order to buy or sell at a specified price, or better.

c) Day order

An order to buy or sell valid only for the day it is given.

d) Open order

An order to buy or sell which remains effective until it is executed or cancelled.

e) Good 'til

An order that remains effective until it is executed or has reached the specified cancellation date.

f) Not held order

An order giving discretion as to the price or time at which it is to be executed.

g) Contingency orders

Orders to buy and sell that are contingent upon certain specifications being satisfied before their execution.

i) Fill or kill order

An order which, if it cannot be completely or partially executed immediately, is cancelled.

ii) All or none order

An order which is effective only if the total specified amount can be executed.

iii) Minimum amount order

An order which is effective only if a specified minimum amount can be executed.

iv) Stop-limit order

An order to buy or sell which becomes a limit order after at least a board lot has traded at the stop-price or higher in the case of a buy order; at the stop-price or lower in the case of a sell order.

h) Committed order

An order which is effective only if an approved participant enters the terms of an order, including the identification code of the approved participant that agreed to submit the opposing order during prenegotiation discussions, into the electronic trading system of the Bourse.

Committed orders will only be matched with an opposite committed order in order to be executed. Committed orders will not interact with any other order type.

Section 6365- 6399
Electronic Trading of Derivatives Instruments Traded on the Bourse

6369 Regular Orders
(25.09.00, 24.09.01, 29.10.01, 24.04.09, 26.06.15)

The orders routed by Approved Participants (regular orders) which can be executed are defined hereinafter:

a) Market order (best limit; bid/ask)

- A Market order is executed at the best limit that is available on the other side of the market at the moment the order is introduced into the electronic trading system, at the quantity available at this limit. If the order is partially filled, the unfilled quantity is posted at the price which the first part of the order was executed.

- A Market order can only be entered during the Market Session (Continuous Trading).

- A Market order is only accepted by the system if a price limit exits on the other side.

b) Limit order:

An order to buy or sell at a specified price, or better.

c) Stop limit order:

An order to buy or sell which becomes a limit order once the contract has traded at the stop-price or higher in the case of a buy order; at the stop-price or lower in the case of a sell order.

If more than one stop order has the same trigger price, then the first in, first out basis (FIFO) rule will apply. Once the stop order becomes a limit order, a new time priority is given to it.

- Stop limit orders can only be entered as day orders.

d) Opening / Closing price order (Market on Open and Market on Close):

Order by which a trader is the buyer or the seller of contracts at the opening / closing price defined by the electronic trading system at the pre-opening / pre-closing session. Therefore, this order must be input during the pre-opening / pre-closing session. If an order is not filled in full, the order is assigned the opening price Calculated Theoretical-Opening (CTO) as defined in article 6375 of the Rules, as its new limit.

e) Hidden quantity order:

A trader may hide a certain quantity of the order to the market :

- Disclosed quantity: quantity of contracts initially parameterized by the user to be seen by the market.

- Hidden quantity: difference between the whole order quantity (total quantity) and the disclosed quantity. The hidden quantity is only seen by the Bourse.

- Displayed quantity: Quantity of contracts effectively seen by the market.

- When the order is executed for the disclosed quantity, it is renewed for the same disclosed quantity and the order is positioned at the end of the queue at the same limit. It loops until the whole order quantity (total quantity) has been filled.

f) Fill and kill order

An order which is executed at the given price for the quantity which can be executed. Any portion of the order, which cannot be executed, will be cancelled.

g) A committed order must conform to the following criteria:

- Both the initial order and the opposing order must be entered at the same price.

- Both the initial order and the opposing order must be entered for the same quantity.

- The identification code provided on the initial order must match the identification code of the approved participant that agreed to enter the opposing order; and the identification code provided on the opposing order must match the identification code of the approved participant that entered the initial order.

- The initial order and the opposing order will only be matched at a better price, that is, between the best bid price and the best offer price.

- An opposing order meeting all criteria specified above must be entered before the close of the trading session during which the initial order was submitted or the initial order will be cancelled automatically.

h) All or none bids or offers and minimum amount orders are not allowed.

The Bourse may decide that certain types of orders are not available.

Section 6121 - 6140
Types of Orders

6121 Standard Nomenclature
(10.10.91, 20.04.98, 26.06.15)

To be valid, an order must specify the name or symbol of the listed security, whether the order is to buy or sell and the number of units to be traded, as well as explicit instructions regarding the trading price and conditions which must be met prior to the order becoming effective. All orders are deemed to be day orders, unless otherwise specified.

Definitions:

a) Market order

An order to buy or sell which must be executed promptly at the best price obtainable.

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An order to buy or sell valid only for the day it is given.

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h) Committed order

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Committed orders will only be matched with an opposite committed order in order to be executed. Committed orders will not interact with any other order type.

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An order to buy or sell at a specified price, or better.

c) Stop limit order:

An order to buy or sell which becomes a limit order once the contract has traded at the stop-price or higher in the case of a buy order; at the stop-price or lower in the case of a sell order.

If more than one stop order has the same trigger price, then the first in, first out basis (FIFO) rule will apply. Once the stop order becomes a limit order, a new time priority is given to it.

- Stop limit orders can only be entered as day orders.

d) Opening / Closing price order (Market on Open and Market on Close):

Order by which a trader is the buyer or the seller of contracts at the opening / closing price defined by the electronic trading system at the pre-opening / pre-closing session. Therefore, this order must be input during the pre-opening / pre-closing session. If an order is not filled in full, the order is assigned the opening price Calculated Theoretical-Opening (CTO) as defined in article 6375 of the Rules, as its new limit.

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- Both the initial order and the opposing order must be entered for the same quantity.

- The identification code provided on the initial order must match the identification code of the approved participant that agreed to enter the opposing order; and the identification code provided on the opposing order must match the identification code of the approved participant that entered the initial order.

- The initial order and the opposing order will only be matched at a better price, that is, between the best bid price and the best offer price.

- An opposing order meeting all criteria specified above must be entered before the close of the trading session during which the initial order was submitted or the initial order will be cancelled automatically.

h) All or none bids or offers and minimum amount orders are not allowed.

The Bourse may decide that certain types of orders are not available.

TMX Montréal Exchange

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

In accordance with the provisions of article 6380 of the Rules of Bourse de Montréal Inc. (the Bourse) regarding the execution of cross transactions and prearranged transactions, the following are the eligible products, the prescribed exposure time delays between the input of two orders and the minimum volume thresholds.

Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments

ELIGIBLE PRODUCTS	PRESCRIBED TIME DELAY	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 (OIS):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Government of Canada Bond Futures Contracts:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX Indices:		
All expiry months	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO_2e) 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

In accordance with the provisions of article 6380 of the Rules of the Bourse, the following are the eligible products and the minimum quantity thresholds for the execution of cross transactions and prearranged transactions using committed orders.

ELIGIBLE PRODUCTS FOR COMMITTED ORDERS	**MINIMUM QUANTITY 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

Committed orders may not be used to execute cross or prearranged transactions on eligible products with a prescribed time delay or to execute strategies. Chronological priority of orders must be respected with regards to the posting of the originating order first, when executing a cross or prearranged transaction.

The approved~~market~~ participant must ensure that all existing orders in the central order book, regardless of the type of orders, which are at limit prices better than or equal to the cross or prearranged transaction price are executed before completing such transaction.

~~EQUITY OPTIONS, INDEX OPTIONS AND CURRENCY OPTIONS CONTRACTS~~

Cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

1) Procedure for eligible products with a prescribed time delay ~~for a volume smaller than the eligible volume threshold~~

An approved~~market~~ participant wishing to execute a cross or a prearranged transaction must enter the order into the trading system for the total intended transaction volume. The participant must then respect a delay equal to the prescribed time delay before executing an offsetting transaction on the residual volume.

The **residual volume** is the portion of the original volume 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 volume is equal to the original intended transaction volume.

2) Procedure for eligible products without a prescribed time delay for a volume equal to or greater than the ~~eligible~~minimum volume threshold

If an approved~~market~~ participant has a cross or prearranged order between the bid and ask:

- the participant can use a specific system function to enter a zero-second cross; ~~or~~
- the participant can enter one side of the order and immediately trade against it if he wishes that the trade be executed directly on the market (with the possibility of execution risk)~~.~~; or
- the participant(s) can enter the order as a committed order.

3) Procedure for strategies executed via the User Defined Strategy (UDS) Facility

An approved~~market~~ participant wishing to execute a cross or a prearranged transaction on a strategy via the UDS facility must enter the order into the trading system for the total intended transaction quantity. The participant must then respect a delay equal to the prescribed time delay before executing an offsetting transaction on the residual quantity.

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.

Note: The bundling of orders to meet the admissible minimum volume threshold is not permitted.

4) Equity option, ETF option, index option & currency option t~~T~~ransactions with a 50% guaranteed minimum

Cross Transaction

If an approved~~market~~ participant wishes to execute a cross ~~or a prearranged~~ transaction on an option strategy, they must contact a market supervisor~~official~~ and provide details of the intended transaction: total volume, price, side(s) of the transaction on which the approved participant is required to give priority.

Prearranged Transaction

If approved participants intend to execute a prearranged transaction on an option strategy, each approved participant must contact a market supervisor and provide details of the intended transaction: total quantity, price, side(s) of the transaction, and must also identify the approved participant(s) that agreed to submit the opposing order during prenegotiation discussions.

Market makers will be permitted to participate on the transaction up to a total maximum of 50% of the volume of the intended transaction.

The approved~~market~~ 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.)

MISCELLANEOUS

Eligible products, their respective minimum volume 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.

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

In accordance with the provisions of article 6380 of the Rules of Bourse de Montréal Inc. (the Bourse) regarding the execution of cross transactions and prearranged transactions, the following are the eligible products, the prescribed exposure time delays between the input of two orders and the minimum volume thresholds.

Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments

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Overnight Index Swap (OIS):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Government of Canada Bond Futures Contracts:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX Indices:		
All expiry months	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO_2e) 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

In accordance with the provisions of article 6380 of the Rules of the Bourse, the following are the eligible products and the minimum quantity thresholds for the execution of cross transactions and prearranged transactions using committed orders.

ELIGIBLE PRODUCTS FOR COMMITTED ORDERS	MINIMUM QUANTITY 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

Committed orders may not be used to execute cross or prearranged transactions on eligible products with a prescribed time delay or to execute strategies. Chronological priority of orders must be respected with regards to the posting of the originating order first, when executing a cross or prearranged transaction.

The approved participant must ensure that all existing orders in the central order book, regardless of the type of orders, which are at limit prices better than or equal to the cross or prearranged transaction price are executed before completing such transaction.

Cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

1) Procedure for eligible products with a prescribed time delay

An approved participant wishing to execute a cross or a prearranged transaction must enter the order into the trading system for the total intended transaction volume. The participant must then respect a delay equal to the prescribed time delay before executing an offsetting transaction on the residual volume.

The **residual volume** is the portion of the original volume 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 volume is equal to the original intended transaction volume.

2) Procedure for eligible products without a prescribed time delay for a volume equal to or greater than the minimum volume threshold

If an approved participant has a cross or prearranged order between the bid and ask:

- the participant can use a specific system function to enter a zero-second cross;
- the participant can enter one side of the order and immediately trade against it if he wishes that the trade be executed directly on the market (with the possibility of execution risk); or
- the participant(s) can enter the order as a committed order.

3) Procedure for strategies executed via the User Defined Strategy (UDS) Facility

An approved participant wishing to execute a cross or a prearranged transaction on a strategy via the UDS facility must enter the order into the trading system for the total intended transaction quantity. The participant must then respect a delay equal to the prescribed time delay before executing an offsetting transaction on the residual quantity.

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.

Note: The bundling of orders to meet the admissible minimum volume threshold is not permitted.

4) Equity option, ETF option, index option & currency option transactions with a 50% guaranteed minimum

Cross Transaction

If an approved participant wishes to execute a cross transaction on an option strategy, they must contact a market supervisor and provide details of the intended transaction: total volume, price, side(s) of the transaction on which the approved participant is required to give priority.

Prearranged Transaction

If approved participants intend to execute a prearranged transaction on an option strategy, each approved participant must contact a market supervisor and provide details of the intended transaction: total quantity, price, side(s) of the transaction, and must also identify the approved participant(s) that agreed to submit the opposing order during prenegotiation discussions.

Market makers will be permitted to participate on the transaction up to a total maximum of 50% of the volume of the intended transaction.

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.)

MISCELLANEOUS

Eligible products, their respective minimum volume 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.

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Circular 155-11: Summarised comments and responses

Note: Of the 2 comments received, 1 favoured the proposal, a support rate of 50%.

No.	Date comment received	Commenting participant category	Comment summaries	Summary of response[1]
1.	November 8, 2011	Broker Dealer	The commentator argues that the Committed Order Functionality (COF) doesn't exist at any major exchanges.	Turquoise Exchange and IDEM, exchanges, comparable to the Bourse in size and product offerings, both offer a COF. The COF represents an innovative response to market demand.
			Interacting with large option trades, whether cross or prearranged, has been a main incentive to increasing market maker order size commitment. The removal of this privilege clearly contradicts the mandate to improve liquidity. The spread in some option contracts is large enough that market makers are willing to tighten spreads, thus benefiting client orders.	COF transactions must be executed within the posted bid-ask, orders at prices equal or inferior to the bid-ask are rejected. As such, market makers should be encouraged to post tighter bid-ask spreads to limit the number of orders that can be executed via the COF, leading to better pricing for client orders and increased liquidity.
			Everyone should comply with the best execution guidelines; the COF contradicts that.	The COF actually enhances the best execution principal by ensuring the buyer's price is below the posted ask and the seller's above the posted bid.
			Generally only a fixed amount of contracts of an order in the book are interfered with. This interference mostly affects small orders, while dealers retain most of blocks in the hundreds of contracts or more. Bourse de Montréal should abandon minimum thresholds. The COF does little to promote institutional trading because market participation on block orders is negligible.	Cross and prearranged transaction volume thresholds preserve a balance between the interests of institutional and retail participants. The thresholds are high enough that only large institutional orders may be executed without market exposure. COF transactions must abide by the prescribed thresholds. Other market participants will still be able to participate in cross and prearranged transactions of less than 100 contracts. Larger orders within posted bid-ask spreads will not be subject to interference.
2.	November 15, 2011	Broker Dealer	The commentator has no objection to trades not being exposed to the marketplace if they're inside the posted bid-ask.	Both the initial and opposing orders must fall between the current bid and offer at the time of entry, otherwise the COF will reject the order.
			The proposed rule doesn't address the commentator's ongoing concerns for zero second crosses that can still occur on or through the posted bid or ask. Bids, offers and sizes posted by market makers provide valuable liquidity. Zero second crosses minimize or negate a market maker's ability to trade a bid or offer that he established, abrogating the concept of price/time priority.	Cross and prearranged transactions are not permitted to trade through resting orders; resting orders are always respected. The COF facilitates the execution of large institutional transactions while respecting market integrity.
			The commentator understands the rationale for zero-second crosses (as long as resting orders are subject to price protection), but believes that once market maker involvement is required the order should be exposed to the book. Automated price discovery or improvement can be accomplished without conflicting timely execution.	An approved participant using the COF must ensure that all existing orders in the order book at limit prices better than or equal to the cross or prearranged transaction price, regardless of type, have been executed before entering an order in the COF.
			A time delay of a second or less for prearranged transactions greater than or equal to 100 contracts could be easily implemented. The short time increment	The proposal that market makers should have additional opportunities to provide liquidity and interact with large crosses or prearranged transactions goes beyond the scope of the

[1] The responses were sent in February 2012.

			would not materially inconvenience customers, and would preserve the market makers’ ability to provide valuable liquidity. Resting orders from retail clients and market makers who provide ongoing liquidity should be protected.	proposed COF and the related regulatory amendments. The Bourse does not presently intend to amend the minimum display times for cross and prearranged transactions.