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<input checked="" type="checkbox"/>	Back-office – Futures	<input checked="" type="checkbox"/>	Regulation
		<input type="checkbox"/>	MCeX

**CIRCULAR  
April 3, 2013**

**REQUEST FOR COMMENTS**

**IMPLEMENTATION OF IMPLIED PRICING ON OPTIONS ON  
THREE-MONTH CANADIAN BANKERS’ ACCEPTANCE FUTURES (OBX)  
AND OPTIONS ON TEN-YEAR GOVERNMENT OF CANADA BOND FUTURES (OGB)**

**AND**

**AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OR  
ADJUSTMENT OF TRADES**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to the *Procedures for the Cancellation or Adjustment of Transactions* (the “*Procedure*”) of the Bourse in order to implement Implied Pricing (“IP”) for the benefit of Options on Three-Month Canadian Bankers’ Acceptance Futures (OBX) and Options on Ten-Year Government of Canada Bond Futures (OGB). At the present time, IP is only offered on the Three Month Canadian Bankers’ Acceptance Future (BAX), and equity options.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **May 3, 2013**. Please submit your comments to:

M<sup>e</sup> Pauline Ascoli  
Vice-President, Legal Affairs, Derivatives  
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Montréal, Québec H4Z 1A9  
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Circular no.: 055-2013

A copy of these comments shall also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M<sup>e</sup> Anne-Marie Beaudoin  
Corporate Secretary  
*Autorité des marchés financiers*  
800 Victoria Square, 22<sup>nd</sup> Floor  
P.O. Box 246, Tour de la Bourse  
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E-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

## **Appendices**

For your information, you will find in appendices an analysis of the proposed amendments as well as the New Procedures and the amended Cross Procedures. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as determined by the *Derivatives Act* (R.S.Q., chapter I-14.01).

## **Process for Changes to the Rules**

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the *Derivatives Act* (R.S.Q., chapter I-14.01).

Circular no.: 055-2013

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**IMPLEMENTATION OF IMPLIED PRICING ON OPTIONS ON  
THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES (OBX)  
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**AND**

**AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OR  
ADJUSTMENT OF TRADES**

**I. INTRODUCTION**

Bourse de Montréal Inc. (the "Bourse") intends to implement Implied Pricing ("IP") for the benefit of Options on Three-Month Canadian Bankers' Acceptance Futures (OBX) and Options on Ten-Year Government of Canada Bond Futures (OGB). At the present time, IP is only offered on the Three Month Canadian Bankers' Acceptance Future (BAX), and equity options. In order to implement IP on the products enumerated above, the Bourse hereby proposes to modify the Procedures for the Cancellation or Adjustment of Transactions (the "Procedure") accordingly.

**Definitions**

**Implied Pricing Algorithm (IPA):**

A tool within the SOLA trading engine that create implied orders on instruments that are derived from regular orders on different but related instruments.

**Implied Orders:**

Orders generated by the IPA (using regular orders) and registered in the order book by the trading engine.

**Implied In Orders:**

Implied orders derived and generated by the IPA on strategies using regular posted orders on individual instruments (legs).

**Implied Out Orders:**

Implied orders derived and generated by the IPA on individual instruments (legs) using regular posted orders on both a strategy instrument and an individual contract (leg) composing the strategy.

**Strategy:**

A combination of one or more derivative instruments.

## II. DETAILED ANALYSIS

### A. Rationale

On April 24, 2009 the Bourse introduced the Implied Pricing Algorithm on the Bourse's SOLA trading engine for the benefit of the BAX futures contract. Since then, the BAX futures markets have become much more efficient and trading volumes have increased at a steady rate. Furthermore, the cancellation or adjustment of transactions arising from erroneous order entry has decreased substantially.

<b>Cancelled and Adjusted Trades BAX Futures</b>		
	<b>Transactions</b>	<b>Volume</b>
<b>2007</b>	18	330
<b>2008</b>	56	2064
<b>2009</b>	4	101
<b>2010</b>	0	0
<b>2011</b>	3	20
<b>2012</b>	1	35

<b>Total</b>	<b>82</b>	<b>2550</b>
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Consequently, the Bourse intends to implement implied pricing on the OBX and OGB futures contracts.

At the current time, Approved Participants ("APs") can execute strategy transactions on the OBX and OGB by posting regular orders on the related strategy instruments. Counterparties can in turn only trade at posted prices on the strategies. However, in some instances it is possible for APs to execute a strategy by transacting the individual legs separately to obtain better prices. In order to accomplish this, APs must rely on the legging functionality available on trading software applications. Legging exposes APs to leg and execution risk, i.e. being unable to secure all the legs of a strategy for the required quantity at the required price differential. The implementation of IP will eliminate the risks described above as the Bourse's trading engine will only transact the legs comprising the strategy if they can be executed for the desired quantity and price differentials. Furthermore, if the conditions exist to execute the strategy at prices better than what is posted in the order book, the trading engine will do so.

The OBX and OGB futures contracts are characterized by very thin trading volumes, and little or no market depth. Therefore, in the event of erroneous order entry by an AP, there is a great degree of likelihood that transactions will be executed at prices that are outside the Bourse's No Cancel Range ("NCR"). This situation would require Market Supervisors in the Bourse's Market Operations Department ("MOD") to intervene and adjust all transactions that are executed at prices outside the NCR, to prices which are at the outer limits of the NCR. The implementation of IP would mitigate the risks of this scenario materializing, as posted orders on strategies would imply prices on the legs comprising the strategy that are representative of market conditions.

Conversely, posted orders on the outright contracts would imply prices on the related strategy. Therefore, in the event of erroneous order entry, the implied orders on both the outright months and the strategies would act as barriers to transactions that could otherwise be executed at prices outside the NCR. In addition, the characteristics of IP ensure that regular orders posted on either the outright months or their related strategies instruments, will imply orders on the related strategies and outright months respectively. Consequently this will add another layer of depth and liquidity to the order books of these relatively illiquid instruments.

Finally, the IPA will assign real time leg prices to OBX and OGB strategy legs. In the Bourse's current trading environment, when a strategy is executed via a listed strategy instrument the Bourse's SOLA trading engine will assign leg prices to each of the legs comprising the strategy. The legs prices are derived by assigning the previous day's settlement price to the leg with the nearest expiry, and adjusting the price (adding or subtracting the strategy price to/from the nearest leg) to obtain the price of the furthest leg. This method of pricing strategy legs is not representative of prevailing market conditions at the time of strategy execution. Thus, on days where the outright contracts prices have increased or decreased substantially, APs run the risk of experiencing very large capital movements in and out of their respective accounts. The implementation of IP assigns leg prices to strategy legs using real time available market prices. This will mitigate the risk of very large capital inflows and outflows based on significant price moves away from the previous day's settlement price.

The implementation of IP on the OBX and OGB will offer several important benefits to market participants:

1. With the implementation of IP, APs will eliminate legging risk inherent in the use of the legging functionalities available on their trading software applications.
2. IP always seeks the best available price based on strategy and individual contract orders, improving efficiency and execution for clients.
3. IP will mitigate the risks of erroneous order entry and subsequent trade cancellation or adjustment by the MOD.
4. It will add another layer of liquidity to both the strategy and outright contract orders books thereby enhancing liquidity and market depth on some of the Bourse's less active products.
5. It will ensure that prices attributed to the legs comprising the strategy will be representative of market conditions at the time of execution, which should mitigate the risks of very large capital inflows and outflows in and out of client accounts.

## B. Benchmarking

The following derivatives exchanges have similar product offerings and offer IP.

	Products	Implied Pricing	NCR Increments on Outright months	NCR on Implied Strategy Orders
<b>CME</b>	Eurodollar Three-Month Options Contracts	Yes	2 minimum ticks with a minimum of 1 tick	Same as the NCR of the individual legs
	U.S. Treasury Futures 10 Year Note Options Contracts	Yes	20% of premium up to 2/64ths with a minimum of 1 tick	Same as the NCR of the individual legs
<b>NYSE/Liffe</b>	Euribor Three Month Options Contracts	Yes	7 basis points for the first eight quarterlies, , incl. serials, 10 basis points thereafter	40% of the individual legs
	Long Gilt Options Contracts	Yes	15 basis points	40% of the individual legs
<b>ASX</b>	Australian 90 Day Bank Bills Options Contracts	Yes	19.5 basis points	Each trade will be treated on a standalone basis regardless of the strategy or contingent nature of the trade.
	Australian 10 Year Treasury Bond Options Contracts	Yes	19.5 basis points	Each trade will be treated on a standalone basis regardless of the strategy or contingent nature of the trade.

## III. PROPOSED REGULATORY AMENDMENTS

### A. The Procedures for the Cancellation or Adjustment of Trades

The Bourse hereby proposes to amend its Procedures for the Cancellation or Adjustment of Trades, specifically Paragraph 5.3 Validation – No Cancel Range as follows:

## **OBX:**

The cancellation procedure in its current form does not contain a category for OBX Strategies. It is therefore proposed to add a category entitled “**Options on Three-Month Canadian Banker’s Acceptance Futures – OBX Strategies**”

Under the category described above, the Bourse proposes to add two sub-categories “**Regular Strategy Orders**” and “**Implied Strategy Orders**”.

For the purpose of the two sub-categories described above, it is proposed that the increments used to calculate the NCR for **Regular Strategy Orders** be “**5 basis points**” and that the increments used to calculate the NCR for **Implied Strategy Orders** be “**the sum of the increments of the strategy’s individual legs**”

## **OGB:**

At the current time the increments used to calculate the NCR on the OGB outright contracts is 40 basis points. After benchmarking comparable products on international exchanges it is apparent that the 40 basis point increments are too large. Furthermore, given the relative illiquidity of the OGB it is recommended to lower the increments used to calculate the NCR on the OGB outright contract so as to limit the potential loss of an AP in the case of erroneous order entry. The Bourse therefore proposes that the increments be lowered to 20 basis points to align the OGB with its peers on international markets.

The cancellation procedure in its current form does not contain a category for OGB Strategies. It is therefore proposed to add a category entitled “**Options on Ten-Year Government of Canada Bond Futures – OGB Strategies**”.

Under the category described above, the Bourse proposes to add two sub-categories, “**Regular Strategy Orders**” and “**Implied Strategy Orders**”.

For the purpose of the two sub-categories described above, it is proposed that the increments used to calculate the NCR for **Regular Strategy Orders** be “**20 basis points**” and that the increments used to calculate the NCR for **Implied Strategy Orders** be “**the sum of the increments of the strategy’s individual legs**”

## **IV. OBJECTIVES AND CONSEQUENCES**

The objective of the proposed amendments to the Bourse’s procedures described in this analysis is to allow the implementation of IP for the benefit of the OBX and OGB futures contracts.

The implementation of IP on the instruments described above would enhance both the liquidity and market depth of the aforementioned products

With this implementation, the Bourse would mitigate the risks associated with erroneous order entry.

## **V. PUBLIC INTEREST**

The proposed modifications will improve the quality of the Options on Futures Market by enhancing the liquidity as well as the market depth of the products described throughout this analysis which should in turn improve the efficiency of the market. Furthermore, the implementation of IP should mitigate the risks associated with erroneous order entry in these products. Liquidity, market depth and efficient markets are key objectives of the Bourse, and the Bourse considers the proposed implementation of IP on the Bourse OBX and OGB Bond Futures products serves the public interest.

## **VI. PROCESS**

The proposed modifications, including this analysis, will be presented for approval to the Rules and Policies Committee of the Bourse and will be transmitted to the *Autorité des marchés financiers* in accordance with the self-certification process and to the Ontario Securities Commission for information.

## **VII. REFERENCES**

CME Rule Book, Chapter 5, Trading Qualifications and Practice, Rule 588: Trading Cancellations and Price Adjustments, Subsection G Globex No Bust Ranges

CME Trade Cancellations and Price Adjustments  
<http://www.cmegroup.com/rulebook/CBOT/1/5/88.html>

NYSE Liffe, Trade Invalidations – Value Ranges, Appendix 1, Page 1  
[https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/502511\\_2.pdf](https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/502511_2.pdf)

ASX Trade Cancellations  
[https://www.asxonline.com/intradoc-cgi/groups/participant\\_services/documents/communications/asx\\_031700.pdf](https://www.asxonline.com/intradoc-cgi/groups/participant_services/documents/communications/asx_031700.pdf)

## **VIII. ATTACHED DOCUMENTS**

Procedures for the Cancellation or Adjustment of Trades.



## PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES

### 1. APPLICABLE RULES

The procedures herein are consistent with and refer to the following Rule Six articles of the Bourse:

- 6303 - Validation, Alteration or Cancellation of a Trade
- 6381 - Cancellation of Trades
- 6383 - Acceptable Market Price
- 6384 - Decision by the Market Supervisor of the Bourse
- 6385 - Delays of Decision and Notifications

### 2. SUMMARY OF THE RELATED RULES

In order to maintain a fair and equitable market, trades may be cancelled by the Bourse if such transactions are detrimental to the normal operation or quality of the market or in any other circumstance deemed appropriate considering market conditions at the time of the trade or if the parties involved in the trade agree to the cancellation.

### 3. OBJECTIVE

The objective of the procedures described herein is:

- To ensure that all transactions are executed at a price coherent with prevailing market conditions (integrity) and to ensure that input errors can be corrected.

### 4. LIMITATIONS FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS NOT OPEN FOR TRADING

The present procedures have a limited application in the case of trading sessions during which the underlying exchange-traded products are not open for trading.

#### 4.1 ORDER ENTRY ERROR TRADES

During such trading sessions, the Market Operations Department of the Bourse ("Market Operations") will not establish a No Cancel Range. As a result, during such trading sessions, no trade shall be adjusted by the Market Operations and all trades will stand at the traded price level unless one of the parties to the trade reports an order entry error ("error trade") and both parties consent to cancel the resulting trade. Therefore, an error trade identified as such by a party to the trade and which both parties consent to cancel shall be cancelled by the Market Operations. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

## **4.2 TRADING RANGE**

The Bourse will establish a trading range based on the previous day's settlement price for trading sessions where the underlying exchange-traded instruments are not open for trading. For that given session, trading will only be allowed within the trading range. Orders outside of the trading range will not be accepted by the system. Should either the high or the low of the trading range be reached, trading will only be allowed at that limit level until the market re-aligns itself back within the trading range.

## **4.3 EARLY SESSION NO CANCEL RANGE**

Notwithstanding Section 4.1, during early sessions, the last traded price registered in the underlying security during that session on a Recognized Exchange or an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation ("Canadian ATS") shall be used to determine the No Cancel Range. If the Market Supervisor determines that the price of the trade executed during the early session was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the trade executed during the early session was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

## **5. DESCRIPTION FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS OPEN FOR TRADING OR WHOSE VALUE IS READILY AVAILABLE**

### **5.1 DETECTION AND DELAYS**

#### **a) Trades Resulting from an Order Entry Error**

Approved participants have the responsibility to report trades resulting from an error trade to the Market Operations without delay. As soon as an error trade resulting from an order entry error is identified by the approved participant, the approved participant must request an adjustment or cancellation of the error trade from a Market Supervisor of the Bourse by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366. If the Market Supervisor determines that the price of the error trade was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the error trade was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

#### **b) Transactions Detrimental to the Normal Operation or Quality of the Market**

If the Market Operations identifies transactions that are deemed detrimental to the normal operation or quality of the market, market supervisors can adjust or cancel the transaction. For the purpose of the present procedures, trades executed at a price outside the No Cancel Range shall be deemed transactions detrimental to the normal operation or quality of the market. If the Market Supervisor determines that a transaction detrimental to the normal operation or quality of the market has occurred, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

## 5.2 IMPLIED STRATEGY ORDERS

**“Regular orders”:** Orders routed by approved participants to the Montréal Exchange trading system.

**“Implied orders”:** Orders generated by the implied pricing algorithm (using regular orders) and registered in the order book by the trading engine.

**“Implied strategy orders”:** Orders generated by the implied pricing algorithm composed of regular orders, one order for each individual leg.

**“Regular strategy orders”:** Orders routed by approved participants to the Montréal Exchange trading system on instruments composed of two or more legs.

A strategy trade resulting from an implied strategy order is in reality composed of two or more separate regular orders, one order for each individual leg. For the purposes of this procedure, if an error trade occurs on an implied strategy order, the strategy trade will be deemed to have been executed using separate regular orders for each individual leg.

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an error strategy trade resulting from an implied strategy order will be at least the increment on one of the individual legs and at the most, the sum of each individual legs’ increments.

## 5.3 VALIDATION – NO CANCEL RANGE

The No Cancel Range is defined as the price interval within which a trade shall not be cancelled outright or adjusted by the Market Operations.

To establish the No Cancel Range, Market Supervisors:

- Determine, in accordance with article 6383 of the Rules, what was the acceptable market price for the derivative instrument before the trade occurred. In making that determination, the Market Supervisor will consider all relevant information, including the last trade price, a better bid or offer, a more recent price for a related derivative instrument (for example a different expiry month) and the prices of similar derivative instruments trading on other markets;
- Apply (add and deduct) the following increments to the acceptable market price:

DERIVATIVE INSTRUMENT	INCREMENT
Three-Month Canadian Banker’s Acceptance Futures – BAX (all quarterly and serial months)	5 basis points
Three-Month Canadian Banker’s Acceptance Futures – BAX Strategies: - Regular strategy orders - Implied strategy orders	5 basis points Sum of the strategy’s individual legs’ increments.
Options on Three-Month Canadian Banker’s Acceptance Futures	5 basis points

DERIVATIVE INSTRUMENT	INCREMENT								
<u>Options on Three-Month Canadian Banker's Acceptance Futures – OBX Strategies</u> - Regular strategy orders - Implied strategy orders	<u>5 basis points</u> <u>Sum of the strategy's individual legs' increments</u>								
Government of Canada Bond Futures - Regular strategy orders	40 basis points 20 basis points								
Options on Government of Canada Bond Futures	<del>40</del> <u>20</u> basis points								
<u>Options on Government of Canada Bond Futures – OGB Strategies</u> - Regular strategy orders - Implied strategy orders	<u>20 basis points</u> <u>Sum of the strategy's individual legs' increments</u>								
Futures Contracts on S&P/TSX Indices - Regular strategy orders	1% of the acceptable market price of these futures contracts 5% of the increments for the outright month								
30-Day Overnight Repo Rate Futures Regular strategy orders	5 basis points 5 basis points								
Overnight Index Swap Futures	5 basis points								
Overnight Index Swap Futures – OIS Strategies: - Regular strategy orders - Implied strategy orders	5 basis points Sum of the strategy's individual legs' increments.								
Futures and Options on Futures Inter-Group Strategies: - Regular strategy orders - Implied Strategy orders	Sum of strategy's individual legs' increments								
Equity, Currency, ETF and Index Options Price ranges: <table border="0" data-bbox="568 1239 812 1365"> <tr> <td>\$0.00 to \$5.00</td> <td>\$0.10</td> </tr> <tr> <td>\$5.01 to \$10.00</td> <td>\$0.25</td> </tr> <tr> <td>\$10.01 to \$20.00</td> <td>\$0.50</td> </tr> <tr> <td>\$20.00 up</td> <td>\$0.75</td> </tr> </table>	\$0.00 to \$5.00	\$0.10	\$5.01 to \$10.00	\$0.25	\$10.01 to \$20.00	\$0.50	\$20.00 up	\$0.75	
\$0.00 to \$5.00	\$0.10								
\$5.01 to \$10.00	\$0.25								
\$10.01 to \$20.00	\$0.50								
\$20.00 up	\$0.75								
Equity, Currency, ETF and Index Options Strategies: - Regular strategy orders - Implied strategy orders	Sum of the strategy's individual legs' increments								
Sponsored Options Price ranges: <table border="0" data-bbox="568 1575 812 1638"> <tr> <td>\$0.001 to \$0.99</td> <td>\$0.25</td> </tr> <tr> <td>\$1.00 up</td> <td>\$0.50</td> </tr> </table>	\$0.001 to \$0.99	\$0.25	\$1.00 up	\$0.50					
\$0.001 to \$0.99	\$0.25								
\$1.00 up	\$0.50								

DERIVATIVE INSTRUMENT	INCREMENT
Canadian Share Futures Contracts Regular and extended sessions:          Early session:	<ol style="list-style-type: none"> <li>1. 0.50\$, if the acceptable market price of these futures contracts is less than 25\$;</li> <li>2. 1.00\$, if the acceptable market price of these futures contracts is equal to or higher than 25\$ but less than 100\$;</li> <li>3. 1% of the acceptable market price of these futures contracts if the acceptable market price of these futures contracts is equal to or higher than 100\$.</li> </ol> 5% of the acceptable market price of these futures contracts
Futures Contracts on Canadian Crude Oil	5% of the acceptable market price of these futures contracts.

#### 5.4 TRADE PRICE INSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the reported error trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless both parties to the error trade agree to the cancellation.

Error trades that both parties have agreed to cancel, can be cancelled within the trading session (early, regular or extended) during which they have occurred. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

#### 5.5 TRADE PRICE OUTSIDE THE NO CANCEL RANGE

When a trade with an execution price outside the No Cancel Range is reported to Market Operations as an error, or otherwise detected by Market Operations, the Market Supervisor will determine whether the trade price is within or outside the No Cancel Range for the particular derivative instrument.

If the Market Supervisor determines that the price of the trade is outside the No Cancel Range, then the Market Supervisor will endeavor to contact all parties involved in the transaction to advise them of the situation.

##### a) General Rule

The trade with an execution price that falls outside the No Cancel Range shall be adjusted by the Market Operations to the limit of the No Cancel Range.

The Market Operations will adjust error trades in the best interests of the market and the participants. The main objective when adjusting error trades is to minimize the impact for all market participants involved in the error trades and more particularly those who had a regular order in the order book.

#### b) Exceptions

However, in the following circumstances, the trade will be cancelled by Market Operations:

1. Both parties to the trade can be contacted within a reasonable delay and agree to the cancellation of the trade.
2. Neither party to the trade is either an approved participant or the registered holder of a SAM ID.

#### c) Implied Orders

Under the General Rule, the trades with an execution price that falls outside the No Cancel Range and that have not been cancelled will be adjusted to the limit of the No Cancel Range. In such a case, if the trade involved a linked implied order(s), the initiator of the original error trade will be responsible for the trade resulting from the linked implied order(s). The initiator of the error may therefore end up being party to the trades resulting from the linked implied order(s).

#### d) Decision

A decision to cancel or adjust will be rendered by a Market Supervisor within 30 minutes following the communication of the error and cancellation request by one of the parties, or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

### **5.6 OTHER SITUATIONS JUSTIFYING THE CANCELLATION OF TRADES**

The Market Operations will review all circumstances surrounding a trade to determine whether the trade occurred in accordance with the rules of the Bourse. The factors that will be considered include, among other things, the market conditions immediately before and after the trade was executed; the volatility of the market; the prices of related instruments in other markets and the fact that one or many parties to the transaction consider that it was executed at a valid price.

In the case of a system failure, it is possible that the Bourse's automated trading system will freeze with orders queuing and waiting to be processed. Once the problem is resolved, the market will be placed into a pre-opening phase during which trading in each derivative instrument will be halted in order to modify the opening time parameters. This pre-opening phase will allow market participants to modify orders and will ensure that the system failure does not impact the integrity of the market. Nevertheless, when the system is not frozen, pending orders could be executed before the Bourse can halt the derivative instruments. In such circumstances, Market Supervisors may, in the best interest of the market and the participants, cancel trades resulting from such executions.

In case an underlying instrument experiences excessive volatile price swings, the exchange on which the underlying instrument is listed may freeze the instrument and may adjust any trades that fall outside the context of the market. When Market Operations becomes aware of such a freeze, the Bourse will freeze the corresponding derivative instrument. If pending orders in the corresponding derivative instrument are executed before the Market Operations can manually freeze the derivative instrument the Market Operations will cancel trades resulting from such executions.

## **5.7 DECISION**

A decision to cancel or to refuse to cancel a transaction subject to Section 5.6 will be rendered by a Market Supervisor within 30 minutes following the cancellation request or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

If the decision is to cancel the trade, the Market Supervisor will remove the trade from the records. Furthermore, if “stop” orders were triggered and therefore executed as a result of the cancelled trade, then these “stop” trades will also be cancelled and the “stop” orders will have to be re-instated in the order book by the initiators of such orders. Trade cancellation messages will be disseminated.

When a trade is cancelled, if it originated from a regular order posted in the order book, the original price/time priority (FIFO) will not be maintained if the initiator of the original order wishes to re-instate his order after the cancellation. This cancelled order shall therefore be re-entered in the trading system by the initiator of the original order. This new order entry time will be the official entry time of the re-instated order.

If the Market Supervisor’s decision is to not cancel the trade, the parties to the trade can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.