

CIRCULAR 069-18
May 17th, 2018

REQUEST FOR COMMENTS

**AMENDMENTS TO ARTICLE 6380 OF RULE SIX OF BOURSE DE MONTRÉAL INC. TO CLARIFY
THE MINIMUM VOLUME THRESHOLDS APPLICABLE TO BLOCK STRATEGY TRANSACTIONS**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to article 6380 of Rule Six of the Bourse to clarify the minimum volume thresholds applicable to block strategy transactions.

Comments on the proposed amendments must be submitted at the latest on **June 22nd, 2018**. Please submit your comments to:

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

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file. Unless specified otherwise, comments will be published anonymously by the Bourse.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, 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 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, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).



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I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) hereby proposes to add clarifications in relation to the minimum volume thresholds applicable to block strategy transactions on the Bourse’ products. The Bourse considers that more transparency and more details are required to better define what strategy types are allowed and what the minimum thresholds applicable in such cases are. Given the growing interest in its futures and options product suite as well as in related services, the Bourse wants to better fulfill participants’ needs by adding clarity to the block transaction procedures, in order to facilitate the interpretation and execution of block strategy transactions. Consequently, the Bourse proposes to modify the rules governing block transactions to include a segmentation by strategy type. More specifically, the Bourse wishes to introduce distinct minimum volume thresholds for intra-group, inter-group (Futures-only) and inter-group (Futures/Options) strategy types. The proposed amendments would improve the effectiveness of the Bourse’s block transaction procedures and align them with international standards.

II. ANALYSIS

a. Background

Block transactions offer a convenient way for market participants to execute large transactions on a specific contract or strategy instrument at a predetermined price. These transactions are bilaterally pre-negotiated between counterparties (usually institutional traders or large commercial firms) and executed away from the central limit order book (“CLOB”). After the aforementioned off-exchange agreement, block transactions must be submitted to the Bourse within a prescribed time delay for reporting purposes. Block transactions are required to be submitted to the Bourse by telephone for validation and entry into the system and via the Bourse’s website¹ for documentation purposes. Note that block transactions executed on the Bourse’s products still benefit from the advantages of central clearing at the Canadian Derivatives Clearing Corporation (“CDCC”).

Currently, the Bourse allows block transactions to be executed on individual contracts and on certain strategies (“block strategies”). However, the rules provide a one-size fits all approach, meaning that the applicable criteria and procedures are the same for every strategy type. Furthermore, the current wording is interpreted in different ways by market participants, which is not desirable for the Bourse and for the good functioning of the market.

Excerpt from article 6380 of the Rules of the Bourse²: Where a block strategy involves the trading of different derivative instruments, or different contract months or premiums of the same instrument, each of derivatives of the strategy need meet only the lowest applicable threshold.

¹ Block trade reporting form available at https://www.m-x.ca/rob_formulaire_en.php

² https://www.m-x.ca/f_regles_en/06_en.pdf

Based on a consultation with key market participants and on related international standards³, the Bourse believes that adding clarity and details pertaining to the minimum volume thresholds for different strategy types would be beneficial for the marketplace and enhance trading efficiencies.

Strategies: The Bourse offers the possibility to execute transactions involving more than one derivative instrument by means of strategies. These are configurable in the Bourse’s system to be traded as a single trade, eliminating the execution risk associated with trading multi-legged transactions. Strategies can be divided into two groups:

- Intra-group strategies refer to a combination of products from the same group but with different terms (ex: a calendar spread on BAX, involving a position in two different BAX contract expiries). Intra-group execution represents a significant part of the Bourse’s volume because participants like the convenience of use, especially for spread strategies, where a participant simultaneously buys and sells two different contract months. The table below presents the proportion of volume executed through the use of intra-group strategies for the main products of the Bourse over the last three years:

Table 1: Intra-group strategies volume by year
(in % of total product volume)

Products	2015	2016	2017
BAX	47%	42%	40%
CGF	27%	29%	12%
CGB	21%	20%	22%
SXF	54%	62%	69%

Source: Montreal Exchange

Note that, as per article 6380d 1) viii) of the Rules of the Bourse, a block trade on a contract roll strategy (a type of intra-group strategies) is not permitted⁴. The proposed modifications are do not intend to change that.

- Inter-group strategies refer to a combination of products from different groups (ex: CGF-CGB curve spread, involving a position in a CGF contract and simultaneously in a CGB contract). Inter-group strategies were implemented in 2012, but their use by market participants has been modest so far. This can be explained by a combination of factors, including the quotation convention of the inter-group strategy algorithm, which is discussed more in detail in subsection b) hereunder. The table below presents some statistics related to the use of inter-group strategies. We can see that inter-group strategies can be composed of either futures-only products (ex: CGF-CGB), or futures/options combinations (BAX-OBX).

³ Refer to competitive analysis in section II c.

⁴ Except for the FTSE Emerging Markets Index futures contract.

Table 2: Inter-group strategies volume by year

Products	2013	2014	2015	2016	2017
BAX & OBX strategies					
BAX	7 055	5 018	3 241	690	8 397
OBX	21 750	26 010	8 250	1 260	18 048
CGB & CGF strategies					
CGB	500	879	-	-	-
CGF	1 000	1 758	-	-	-

Source: Montreal Exchange

The Bourse believes that the current market conditions are appealing for many trading and hedging strategies using the Bourse products:

- More volatility in the equity and fixed income markets;
- Rising interest rates context in North America;
- Projected revitalization of the yield curve (ex: CGF, LGB).

These factors combined with requests from market participants to have more clarity on the applicable procedures surrounding different strategy types has led the Bourse to propose certain modifications to its rules.

b. Description and Analysis of Market Impacts

The Bourse proposes to make a distinction between the minimum volume thresholds for block transactions on different strategy types: intra-group, inter-group (Futures-only) and inter-group (Futures/Options combination). An overview of the categories and associated minimum volume thresholds (proposed) is presented in the table below:

Table 3: Proposed segmentation of Block strategy transactions and acceptable criteria

Block strategy type	Applicable criteria
Intra-Group Strategies	Each derivative leg of the strategy needs to meet only the lowest applicable threshold.
Intergroup Strategies (Futures-only)	Each derivative leg of the strategy needs to meet its minimum volume threshold.
Intergroup Strategies (Futures/Options combinations)	Sum of the strategy legs: 2,000 contracts (for BAX/OBX) and 2,000 contracts (for CGB/OGB) The options leg volume must amount to at least 50% of the sum of the strategy legs.

For intra-group strategies, there would be no changes to the current rules as the current criteria would stay the same. This threshold is appropriate as intra-group strategies (ex: BAX reds and greens) are usually traded with a 1 for 1 ratio, meaning that the quantity of each leg is essentially always the same.

For inter-group strategies (with the exception of Futures/Options strategies), the Bourse proposes that each respective strategy instrument would need to meet its own applicable minimum volume threshold, which adds clarification to the rule and reflects how it is currently applied by the Market Operation Department. The Bourse believes that this proposition is better suited for its market given the different development stages of its different products.

For inter-group Futures/Options strategies (also referred to as delta⁵ trades), the proposed amendment is to set a minimum volume threshold for the total strategy volume and to impose a minimum quantity on the options leg component. This is to take into account the fact that futures/options combinations typically involve more options than futures contracts, but the quantity ratio can vary greatly from one trade to another. For block strategies involving Futures and Options combinations, the Bourse believes that considering the sum of the legs is the best model to take into account specificities of the underlying markets. Market and liquidity conditions are important concepts to consider to determine block thresholds and since they can vary greatly depending on the futures/options combination, the Bourse prefers to have flexibility in the threshold determination for these strategies. This is why the Bourse does not suggest a general provision for the applicable criteria but rather proposes to have a specific rule for each futures/options combination (BAX/OBX and CGB/OGB), even if the proposed minimum volume threshold of 2,000 contracts would initially be the same for both combinations. The 2,000 contracts threshold for both futures/options strategy was determined from a consultation with key market participants and is consistent with the OBX minimum volume threshold. The Bourse believes that this level is appropriate given its current fixed income derivatives block thresholds structure.

Impacts on market integrity:

Because block transactions are negotiated away from the prevailing best bid and offer in the CLOB, the price of the block trade must be fair and reasonable in accordance with the prevailing rules. In determining the price, consideration must be given to factors such as the trade size, the trade prices observable in the market as well as bid and ask prices on the same contract at the relevant time period, the volatility and liquidity of the relevant market and general market conditions. Upon request, the approved participant who arranges a block trade must provide satisfactory evidence that the block trade has been arranged in accordance with the Rules of the Bourse.

Impacts on transparency:

The Bourse is committed to promoting the use of the CLOB as the main source of price transparency for its contract. Thus, the Bourse expects the principal way of trading its products and strategies to remain on its open and competitive electronic trading platform. Block

⁵ Delta trades are commonly used to describe an option strategy that aims to hedge the price movement risk associated with a position in the underlying asset.

transactions are allowed by the Bourse for exceptional market conditions, as an accommodation for market participants who find this way of conducting business more convenient. The objective of this mechanism is not to have these types of transactions represent a large part of the market or have them become current practice.

Specificities of the proposed amendments for BAX and OBX strategies:

Participants can currently trade BAX/OBX strategies (including strategies involving BAX whites⁶) via the inter-group strategy (“IGS”) functionality of the Bourse. However, this functionality (as currently offered) is not “user-friendly” for market participants because:

- the end price quotation is not “intuitive” (an IGS price is the sum of its constituents);
- it creates uncertainty on individual leg prices (only the IGS price is guaranteed when a trade is executed).

This has resulted in complaints from participants, which are becoming uncomfortable executing trade strategies within the IGS functionality (especially for BAX/OBX transactions and for multiple legs strategies). By adding clarity to the block strategies in its Rules, the Bourse wants to address the needs of participants involved in these markets, particularly in the context of favorable market conditions for product growth described above.

Table 4: BAX/OBX inter-group strategies statistics

BAX/OBX strategies	2015	2016	2017
Number of transactions	9	2	12 (all from June until the end of the year)
BAX Average Volume per transaction	360	690	700
OBX Average Volume per transaction	917	1 260	1 504

Source: Montreal Exchange

The proposed modifications do not differentiate between BAX contract expiry months. This means that BAX contracts eligible for block strategy trades would include BAX whites contracts, which haven’t been allowed to be traded through block trades on the exchange since 2007⁷. By doing so, the Bourse intends to respond to a specific market need related to strategies. For greater certainty, under the proposed modifications, the Bourse would limit block trades possibilities on BAX whites to block strategies (provided that such strategies meet the prescribed criteria). It is worth mentioning that BAX whites can already be traded outside the CLOB through EFP/EFR transactions. However, similar to BAX/OBX strategies, these transactions represent only a fraction of the total BAX market.

⁶ BAX whites are referred to as the first year of contract expiries.

⁷ https://www.m-x.ca/f_circulaires_en/091-07_en.pdf

Table 5: BAX EFP/EFR statistics

EFP/EFR transactions of BAX	2015	2016	2017
Number of transactions	50	17	95
Volume	50 827	31 533	123 374
Average volume by transaction	1 017	1 855	1 299
% of total BAX volume	0.23%	0.12%	0.43%

Source: Montreal Exchange

That being said, the Bourse is committed to monitor the evolution of the use of block strategy transactions by market participants to make sure the rules and procedures remain relevant for the good functioning of the market.

By segmenting its acceptable criteria for block strategy transactions by strategy type, the Bourse considers that the proposed amendments remain consistent with its objective of providing market participants with an efficient mechanism of price discovery and hedging utility.

c. Comparative Analysis

An overview of the minimum volume thresholds for block transactions on different strategy types at international derivatives exchanges is provide in table 6 below.

Table 6: International benchmarking of block strategy transactions rules

Strategy type	MX (Proposed)	CME ⁸	ICE ⁹	Eurex ¹⁰
Intra-group strategies	Each derivative leg of the strategy need meet only the lowest applicable threshold.	Futures strategies: The sum of the quantities of the legs of the transaction must meet the minimum block quantity threshold. Options strategies: Each leg of the spread must meet the designated minimum quantity threshold.	Sum of the legs of the Block Trade must meet the minimum volume threshold	Not specified.

⁸ CME Group. Rulebook. [online] Available at: <http://www.cmegroup.com/rulebook/files/cme-group-Rule-526.pdf> [Accessed March 1st 2018]

⁹ ICE Futures U.S. Block Trade - FAQs [online] Available at: https://www.theice.com/publicdocs/futures_us/exchange_notices/Block_Trade_FAQ.pdf [Accessed March 1st 2018]

¹⁰ Eurex Exchange. Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland [online] Available at: https://www.eurexchange.com/blob/238416/3eb2255573f391c40fe2af9025fb808b/data/contract_specifications_en_ab-2018_03_12.pdf [Accessed March 1st 2018]

Inter-group strategies (Futures-only)	Each derivative leg of the strategy need meet its prescribed minimum volume threshold.	In general: Each leg of the spread must meet the larger of the threshold requirements for the underlying products. Exception for US treasuries: Each leg of the spread must meet the minimum threshold requirement for the respective underlying products.	Sum of the legs of the Block Trade must meet the larger of the minimum volume thresholds applicable to the Contracts being traded.	
Futures/Options combination	Sum of the strategy legs must be: 2,000 contracts for BAX/OBX strategies and 2,000 for CGB/OGB strategies. The options volume must be at least 50% of the total strategy volume.	The options component of the spread must meet the minimum quantity threshold for the outright option or option combination and the quantity of futures executed must be consistent with the delta of the options component of the spread.		The provisions relating to the minimum number of traded contracts apply to Options Contracts.

From this table, we can observe that a segmentation by block strategy type is the model applied by major global derivatives exchanges. However, there is no consensus on how to determine the minimum volume thresholds for the different exchanges, but it is very common to have a minimum volume threshold determined from the sum of the legs. CME also includes many exceptions based on the underlying involved in the strategies (see appendix 1), reinforcing the finding that a case by case assessment is required. Based on this international benchmarking, the Bourse considers that the proposed modifications will better align the minimum block thresholds of block strategies with international practices for comparable strategies.

Anchor price mechanism: On other exchanges, the market practice is to have an anchor price mechanism for strategy transactions, where, each leg price but one are negotiated outside the CLOB. This mechanism can be used regardless of the trade size. This is convenient for clients as it gives price certainty on the legs.

Example of definition (at CME¹¹): *The CV Covered is the simultaneous purchase or sale of outright options or options spreads or combination with one or more outright futures; for example, buying call options and selling futures or selling put options and selling futures. The creator of the strategy is responsible for defining the direction, delta, price, and expiration of the futures leg(s).*

¹¹ CME Group. Options Spreads and Combinations. [online] Available at: <https://www.cmegroup.com/confluence/display/EPICSANDBOX/Options+Spreads+and+Combinations#OptionsSpreadsandCombinations-CVcovered> [Accessed March 1st 2018]

Pricing Example

CV Covered trades 100 lots at 25

- Leg1 is a 1 lot buy options outright
 - Leg2 is a 1 lot sell futures outright, Delta 47 and price 200,000
1. Outright options Leg1 is assigned Spread Trade Price of 25
 - a. Futures outright Leg2 sells 47 lots (Delta * traded options quantity) at defined price of 200,000.

Source: CME

d. Proposed Amendments

The Bourse proposes to amend the table of eligible derivatives and minimum volume thresholds for block trades and its following explanatory paragraphs in article 6380 of the Rules of the Bourse - see attached proposed rule changes.

III. AMENDMENT PROCESS

The drafting process was initiated by the need to clarify the block transaction procedures for block strategy transactions. The current wording in the Rules is subject to interpretation by the Bourse's participants with regards to its applicability, hence the proposition to have minimum volume thresholds by block strategy types. The Bourse believes that more transparent rules should be set to help foster good market functioning.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed changes should have no impact on the technological systems of the Bourse, CDCC, its approved participants, independent software vendors, or any other market participants. The Bourse has not identified any impediments, whether technical, operational or other, to the implementation of the proposed amendments.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS

The objective is to strengthen the functioning of the Canadian derivatives market and better serve the interests of market participants. In particular, the Bourse believes that the proposed amendments will:

- Add clarity to the rule governing block transactions, facilitating the interpretation and its applicability for participants and by the Bourse's Market Operations Department;
- Facilitate greater market efficiency through improved execution quality and price certainty for large transactions (especially for Futures/Options combination);
- Align the Bourse's practices with international best practices of major electronic derivatives exchanges.

This proposal is not expected to diminish the role of the organized electronic market, which will remain the central place for trading the vast majority of the Bourse volume. The intention of the

Bourse is to make this facility available for trades that would otherwise be disruptive to the marketplace and not for block volumes to become a significant part of the market. The CLOB will remain intact and the price discovery mechanism associated with the market will be respected.

VI. PUBLIC INTEREST

The Bourse considers these amendments to be in the interest of the public as they will allow for better understanding of which block strategies are allowed and what are the applicable minimum volume thresholds for each strategy type. Block transactions offer both clients and approved participants the convenience of privately negotiating a trade with a selected counterparty and the ability to execute a large transaction at a fair and reasonable price.

VII. EFFICIENCY

The Bourse's proposal should attract additional trading volume by offering market participants certainty of price and immediacy of execution in the transaction of large orders, as well as the benefits of central clearing. As such, adding clarity to block strategy transactions should result in greater market efficiency through improved execution quality.

VIII. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the Autorité des marchés financiers, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

Appendix 1: CME - Block Trade Minimum Quantities for Outrights, Spreads and Combinations
Appendix 2: Proposed amendments to the Rules of the Bourse.

Appendix 1¹²

	CME and CBOT Products	NYMEX and COMEX Products
Intra-Commodity Futures Spreads and Futures Combinations	<p>The <i>sum</i> of the quantities of the legs of the transaction must meet the minimum block quantity threshold.</p> <p>* Exceptions apply in intra-commodity Agricultural, Foreign Exchange, U.S. Treasury and S&P GSCI, S&P GSCI ER and Bloomberg Roll Select Commodity Index futures spreads</p>	<p>The <i>sum</i> of the quantities of the legs of the transaction must meet the minimum block quantity threshold</p>
Intra-Commodity Options Spreads and Options Combinations	<p><i>Each leg of the spread</i> must meet the designated minimum quantity threshold.</p>	
Inter-Commodity Futures Spreads and Futures Combinations	<p><i>Each leg of the spread</i> must meet the <i>larger</i> of the threshold requirements for the underlying products.</p> <p>** Exceptions apply in:</p> <ul style="list-style-type: none"> i) Short Term Interest Rate Futures; ii) U.S. Treasury and 10-Year Sovereign Yield Spread Futures; and iii) Deliverable Interest Rate Swap Futures ("DSF") & Deliverable Euro Interest Rate Swap Futures ("EUR IRS") iv) U.S. Treasury Futures and Forward-Starting Libor Reference Interest Rate Swaps ("Treasury Invoice Spreads") 	<p>The <i>sum</i> of the quantities of the legs of the transaction must meet the <i>larger</i> of the threshold requirements for the underlying products.</p>
Inter-Commodity Options Spreads and Options Combinations	<p><i>Each leg of the spread</i> must meet the <i>larger</i> of the threshold requirements for the underlying products.</p>	
Options/Futures Spreads	<p>The options component of the spread must meet the minimum quantity threshold for the outright option or option combination and the quantity of futures executed must be consistent with the delta of the options component of the spread.</p> <p>*** Exceptions apply in Weather and Housing options/futures spreads</p>	<p>The options component of the spread must meet the minimum quantity threshold for the outright option or option combination and the quantity of futures executed must be consistent with the delta of the options component of the spread.</p>

¹² <http://www.cmegroup.com/rulebook/files/cme-group-Rule-526.pdf>

Appendix 2

[Please see attached]

RULE SIX

TRADING

A. GENERAL FRAMEWORK AND PROCEDURES

[...]

Section 6365- 6401

Electronic Trading of Derivatives Instruments Traded on the Bourse

[...]

6380 Transactions Required on Bourse Facilities

(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08, 29.01.10, 09.06.14, 21.01.16, 17.01.18, 09.02.18)

All trading in Listed Products must occur on or through the electronic trading system or in accordance with the rules of the Bourse.

[...]

6380d. Block Trades

- 1) **In general.** Approved Participants of the Bourse may negotiate and execute a transaction off of the electronic trading system pursuant to the following conditions:
 - i) A block trade transaction may be arranged and executed only during trading hours on the Bourse for the eligible derivative.
 - ii) Block trades are only permitted in the derivative instruments and for a quantity which meets or exceeds the minimum volume thresholds as follows:

ELIGIBLE DERIVATIVES	MINIMUM VOLUME THRESHOLD
30-Day Overnight Repo Rate Futures Contracts (ONX)	1,000 contracts
Overnight Index Swap Futures Contracts (OIS)	200 contracts
Ten-Year Government of Canada Bond Futures Contracts (CGB)	1,500 contracts
Two-Year Government of Canada Bond Futures Contracts (CGZ)	500 contracts
30-Year Government of Canada Bond Futures Contracts (LGB)	500 contracts
Five-Year Government of Canada Bond Futures Contracts (CGF)	500 contracts

ELIGIBLE DERIVATIVES	MINIMUM VOLUME THRESHOLD
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	2,000 contracts
Canadian Crude Oil Futures Contracts	100 contracts
Futures contracts on the FTSE Emerging Markets Index	100 contracts
Bankers' Acceptance Futures Contracts quarterlies five through eight (BAX Reds)	1,000 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies nine through twelve (BAX Greens)	500 contracts
<u>Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX) / Options on Three-Month Canadian Banker's Acceptance Futures Contracts Strategy Instruments</u>	<u>Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the sum of the strategy legs</u>
<u>Ten-Year Government of Canada Bond Futures Contracts (CGB) / Options on Ten-Year Government of Canada Bond Futures Contracts (OGB) Strategy Instruments</u>	<u>Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the sum of the strategy legs</u>

iii) Where a block strategy transaction involves the trading of intra-group strategy instruments~~different derivative instruments, or different contract months or premiums of the same instrument~~, each ~~of~~ derivative legs of the strategy needs to meet only the lowest applicable minimum volume threshold.

Where a block strategy transaction involves the trading of inter-group strategy instruments (excluding futures/options combinations), each derivative leg of the strategy needs to meet its applicable minimum volume threshold.

Where a block strategy transaction involves the trading of futures/options combinations strategy instruments, the applicable minimum volume thresholds are defined in the last two rows of the table above.

iv) Approved Participants may not aggregate separate orders in order to meet the minimum volume thresholds.

v) Each party to a block trade must be an accredited counterparty as defined in section 3 of the Quebec Derivatives Act, CQLR c I-14.01.

vi) The price at which a block trade is arranged must be “fair and reasonable” in light of (a) the size of the block trade; (b) currently traded prices and bid and ask prices in the same derivative instrument; (c) the underlying markets; and (d) general market conditions, all at the relevant time. The fairness and reasonableness of the price of a block trade priced at a basis to an index as permitted under paragraph 2 of this article may also take into

account the following additional considerations: (e) financing rates, (f) expected dividend income, and (g) time remaining until the index futures contract expiration, all at the relevant time. Although there is no requirement for a block trade to be executed within the daily high and low prices, execution outside of that price range may result in a request by the Regulatory Division for additional information about the transaction.

- vii) Block trades shall not trigger special terms orders or otherwise affect orders on the electronic trading system.
- viii) A block trade on a contract roll strategy is not permitted, except for the FTSE Emerging Markets Index futures contract.
- ix) The details of a block trade must be reported by Approved Participants for both the buyer and seller to the Market Operations Department by telephone at 1-888-696-6366 or at 514-871-7871 and on a Block Trade Reporting Form, available on the Bourse's web site at http://www.m-x.ca/rob_formulaire_en.php, within 15 minutes of the Block Trade's execution.
- x) Following validation of the trade details by the Bourse (which is not a confirmation by the Bourse that the block trade has been effected in accordance with this Article), the Bourse shall disseminate the trade and price information relating to the block trade.
- xi) Upon request, the Approved Participant shall provide evidence that the block trade transaction has been effected in accordance with these Rules.

[...]

RULE SIX

TRADING

A. GENERAL FRAMEWORK AND PROCEDURES

[...]

Section 6365- 6401

Electronic Trading of Derivatives Instruments Traded on the Bourse

[...]

6380 Transactions Required on Bourse Facilities

(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08, 29.01.10, 09.06.14, 21.01.16, 17.01.18, 09.02.18)

All trading in Listed Products must occur on or through the electronic trading system or in accordance with the rules of the Bourse.

[...]

6380d. Block Trades

- 1) **In general.** Approved Participants of the Bourse may negotiate and execute a transaction off of the electronic trading system pursuant to the following conditions:
 - i) A block trade transaction may be arranged and executed only during trading hours on the Bourse for the eligible derivative.
 - ii) Block trades are only permitted in the derivative instruments and for a quantity which meets or exceeds the minimum volume thresholds as follows:

ELIGIBLE DERIVATIVES	MINIMUM VOLUME THRESHOLD
30-Day Overnight Repo Rate Futures Contracts (ONX)	1,000 contracts
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Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX) / Options on Three-Month Canadian Banker's Acceptance Futures Contracts Strategy Instruments	Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the sum of the strategy legs
Ten-Year Government of Canada Bond Futures Contracts (CGB) / Options on Ten-Year Government of Canada Bond Futures Contracts (OGB) Strategy Instruments	Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the sum of the strategy legs

- i) Where a block strategy transaction involves the trading of intra-group strategy instruments, each derivative leg of the strategy needs to meet only the lowest applicable minimum volume threshold.

Where a block strategy transaction involves the trading of inter-group strategy instruments (excluding futures/options combinations), each derivative leg of the strategy needs to meet its applicable minimum volume threshold.

Where a block strategy transaction involves the trading of futures/options combinations strategy instruments, the applicable minimum volume thresholds are defined in the last two rows of the table above.

- iii) Approved Participants may not aggregate separate orders in order to meet the minimum volume thresholds.
- iv) Each party to a block trade must be an accredited counterparty as defined in section 3 of the Quebec Derivatives Act, CQLR c I-14.01.
- v) The price at which a block trade is arranged must be “fair and reasonable” in light of (a) the size of the block trade; (b) currently traded prices and bid and ask prices in the same derivative instrument; (c) the underlying markets; and (d) general market conditions, all at the relevant time. The fairness and reasonableness of the price of a block trade priced at a basis to an index as permitted under paragraph 2 of this article may also take into account the following additional considerations: (e) financing rates, (f) expected dividend

income, and (g) time remaining until the index futures contract expiration, all at the relevant time. Although there is no requirement for a block trade to be executed within the daily high and low prices, execution outside of that price range may result in a request by the Regulatory Division for additional information about the transaction.

- vi) Block trades shall not trigger special terms orders or otherwise affect orders on the electronic trading system.
- vii) A block trade on a contract roll strategy is not permitted, except for the FTSE Emerging Markets Index futures contract.
- viii) The details of a block trade must be reported by Approved Participants for both the buyer and seller to the Market Operations Department by telephone at 1-888-696-6366 or at 514-871-7871 and on a Block Trade Reporting Form, available on the Bourse's web site at http://www.m-x.ca/rob_formulaire_en.php, within 15 minutes of the Block Trade's execution.
- ix) Following validation of the trade details by the Bourse (which is not a confirmation by the Bourse that the block trade has been effected in accordance with this Article), the Bourse shall disseminate the trade and price information relating to the block trade.
- x) Upon request, the Approved Participant shall provide evidence that the block trade transaction has been effected in accordance with these Rules.

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