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

CIRCULAR 078-17
May 31, 2017

REQUEST FOR COMMENTS

INTRODUCTION OF BASIS TRADES ON CLOSE FOR INDEX FUTURES, SECTOR INDEX FUTURES AND SHARE FUTURES

AMENDMENTS TO ARTICLE 6380 OF RULE 6 OF BOURSE DE MONTREAL INC. AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS AND 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 article 6380 of Rule 6 of the Bourse as well as amendments to the *Procedures Applicable to the Execution of Cross Transactions and the execution of prearranged transactions* and to the *Procedures for the Cancellation or Adjustment of Trades*. By these amendments, the Bourse wishes to incorporate in its Rules a functionality that will allow participants to post and trade "basis spread type" orders on index, sector index and share futures contracts on the Bourse's electronic trading platform. This functionality will be called "Basis Trade on Close" or "BTC".

Comments on the proposed amendments must be submitted on or before **July 31, 2017**. Please submit your comments to:

Me Martin Jannelle
Legal Counsel
Office of the General Counsel
Bourse de Montréal Inc.
Tour de la Bourse
800 Victoria Square, P.O. Box 61
Montréal, Québec H4Z 1A9
Email: legal@tmx.ca

A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the "**Autorité**") to:

Me 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
E-mail: consultation-en-cours@lautorite.qc.ca

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.

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).

Regulatory Amendment Process

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, 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).

INTRODUCTION OF BASIS TRADES ON CLOSE FOR INDEX FUTURES, SECTOR INDEX FUTURES AND SHARE FUTURES

AMENDMENTS TO ARTICLE 6380 OF RULE SIX
AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS AND TO THE PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES

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I. SUMMARY

Bourse de Montreal Inc. (the "Bourse") intends to launch a new functionality by which an investor will be able to enter, in the electronic trading book of the Bourse, orders on futures contracts whose prices are expressed as a spread to the closing price of the futures' underlying interest.

The new functionality called "Basis Trade on Close" ("BTC") will offer "benchmark-conscious" investors a tool designed to reduce the risk of incurring unexpected transaction costs and the resulting adverse impact on their investment returns.

II. ANALYSIS

a. Background

i) Investment return objectives

Generally, investors either have "absolute" or "relative" investment return objectives. Having "absolute investment return objectives" means that an investor aims at delivering, for example, a return of 1% per annum on his investment portfolio. However, having "relative investment return objectives" means that an investor will have a benchmark against which (or *relative* to which) the return of the investor's portfolio is measured. The following are examples of return benchmarks: a broad market index (like the S&P/TSX60), a market sector index (like the S&P/TSX Capped Financials index), a basket of stocks (for example a basket comprised of 60% Royal Bank and 40% TD Bank) or single stocks (for example Royal Bank alone). If the benchmark used by an investor is the S&P/TSX 60, such investor could aim to obtain an annual return which is 1% superior to S&P/TSX 60's annual return.

Investors with "absolute investment return objectives" are always interested in buying at the lowest price and selling at the highest price they can get on the market at the time of purchase or sale. Investors with "relative investment return objectives" are less concerned with the highest and the lowest prices on the market but more concerned with the highest or lowest prices *relative* to the return of the benchmark.

The following example describes the two approaches:

At 10 am, the S&P/TSX 60 index is at 800 and the SXF futures trades around 801. At 12 am, the same index is at 808 and the SXF futures trades at 807. The "absolute investment return objective" investor will be happy to buy the futures at 801 and sell it at 807, netting an "absolute" profit of 6 points. However, not the same can be said for the "relative investment return objective" investor: while the index went up by 8 points (from 800 to 808), the investor made a profit on the futures position of "only" 6 points (buying at 801 and selling at 807) which means that the investor's return has underperformed the benchmark's return.

ii) Tools currently available in the market for "benchmark-conscious" investors

The industry's accepted return measurement methods calculate a benchmark's return by using the daily closing prices of the benchmark. As a result, "relative investment return objective" investors are extremely sensitive to the prices of the investment vehicles they select, relative to the benchmark's closing prices. Currently, these investors can open or close positions in their portfolios by either: 1) investing directly in equities; 2) entering into OTC derivatives such as equity swaps, or 3) using exchange-traded derivatives such as futures.

1) The investors trading directly in cash equities would generally use Market-on-Close ("MOC") orders. Given that their investment return is based on the closing prices of the equities or equity indexes, such "MOC" orders allows the investors to enter or exit the cash markets at the exact closing price of their benchmark, thereby eliminating any risk of underperforming the benchmark;

2) The investors trading in OTC derivatives take advantage of the characteristics of the OTC swaps whose returns are calculated based on the closing prices of the underlying interest (not from prices observed during the trading day). Therefore, when taking or closing an OTC swap position, the investors are guaranteed of obtaining a price equal to the benchmark's price, effectively eliminating any risk of underperforming the benchmark;

3) However, due to the specifics and dynamics of the futures market, investors using futures contracts are facing significant challenges in obtaining similarly useful entry and exit prices.

The Fair Value ("FV") of a futures contract at a given moment represents the price derived from the price of the futures' underlying interest at that moment. If that "given moment" is the market close, then the FV of a futures contract is derived from the closing price of the underlying interest. However, the "dynamics" of the futures market are such that, at any moment, futures prices can fluctuate above or below their FV due to forces of offer and demand on the futures market. In order to ensure the execution of his order at FV, an investor should continuously calculate the FV of the contract (as a function of the contract's underlying interest), maintain the order on the market as long as the underlying interest price is unchanged and adjust his order price instantaneously to reflect any change in value of the underlying interest. Many investors do not have the resources to perform a permanent monitoring and price recalculation and even those who actually perform such a monitoring could be exposed to execution slippage (which is the difference between the expected execution price and the actual transaction price) when trying to execute a large order on the close of the futures market.

Let's assume that at 11am there are 1000 shares of Royal Bank offered at $80, 5 contracts (the five contracts being equivalent to 500 shares) of Royal Bank Share Futures offered at $81, which is the FV of the futures contract at that moment, while another 5 contracts are offered at $82 (which is above FV). An investor wishing to buy 1000 Royal Bank shares at 11am sharp will pay exactly $80. However, an investor wishing to buy 10 contracts of Royal Bank Share Futures will pay an average price of $81.50, which is above the FV of the futures contract. Therefore, if an investor has Royal Bank as his "relative investment return objective benchmark", he would have overpaid his purchase of futures contracts *relative* to the benchmark. Such a situation can be

even more exacerbated during very short time intervals like the market close, when the purchase of the 10 futures contracts has to be done at a price reflecting the FV of the futures contract calculated with the closing price of the Royal Bank stock.

iii) Derivatives solutions available at the Bourse

Several functionalities currently offered by the Bourse (Riskless Basis Cross, or "RBC", Exchange for Physical, or "EFP", Exchange for Risk, or "EFR" and the Block trades priced at a basis to the index close, or "BIC") satisfy partially but not fully the goals of the "relative investment return objective" investors.

1) A Riskless Basis Cross transaction is a trade by which an approved participant and a client engage in pre-negotiation discussions to agree upon the terms of a transaction on index futures contracts or share futures contracts to take place outside the Bourse's electronic trading system. The transaction must include the acquisition of a cash market position by the approved participant. The terms agreed upon also include the required amount of index (in the case of index futures) or underlying cash instrument (in the case of share futures) exposure and the basis spread between the average price of the cash exposure acquired by the approved participant and the index or share futures contracts that will be "crossed" to the client.

2) An EFP involves simultaneous transactions in the cash and futures markets. In an EFP, one party buys an acceptable cash market position and simultaneously sells the futures contract while another party sells the acceptable cash market position and simultaneously buys the futures contract. The parties to an EFP privately negotiate the price of the futures contract and the value of the cash commodity to be exchanged. This type of transaction allows an investor to execute two trades in two markets by effectively trading the "basis" between the two markets. However, given that it involves two transactions in two different markets - cash market and futures market - the EFP does not serve investors wishing to trade only the futures contracts.

3) An EFR is a transaction whereby two parties enter into an agreement pursuant to which one party purchases (or sells) an over-the-counter derivative instrument and simultaneously sells (or buys) a corresponding futures contract and the other party sells (or buys) the over-the-counter derivative instrument and simultaneously purchases (or sells) the corresponding futures contract. Just like the EFP, given that this type of trade involves two transactions in two different markets - cash and futures markets - it does not serve investors wishing to trade only the futures contracts.

4) The BIC functionality answers most of the investors' objectives by offering the possibility to trade a block of futures contracts at a price that is referenced to the closing price of the underlying index. The difference between the futures contract price and the index price is called "basis" and can be either positive, negative or zero. Currently, the BIC is offered only on the FTSE Emerging Markets index, the S&P/TSX 60 index and the sectorial indexes. Therefore, the current BIC functionality is limited only to investors capable and willing to trade pre-negotiated block transactions on a few selected indexes.

The table below summarizes some of the characteristics of each types of transactions:

Type of order	Trade involves only futures contracts	Trade done on an electronic book	Price determination
"Regular" ("outright") order	Y	Y	"Absolute price"* entered by participant in the electronic trading book (but not pegged to the underlying interest)
"RBC"	N	N	Price fixed in advance by counterparties to the trade and calculated as a basis relative to an average price obtained on cash market
"EFP"	N	N	"Absolute price"* fixed in advance by counterparties but not pegged to the underlying interest
"EFR"	N	N	"Absolute price"* fixed in advance by counterparties but not pegged to the underlying interest
"BIC"	Y	N	"Basis price" agreed in advance by counterparties and final futures price calculated by using the agreed basis and the close of the underlying interest

* Absolute price: for example "801.25"

The Bourse intends to fill the spectrum of offered functionalities by launching an universal and completely transparent trading tool that allows all investors (not only block-trading investors) to post and trade "basis spread type" orders on share, broad index and sector index futures contracts on the Bourse's electronic trading platform. The new trading tool, the "Basis Trade on Close" or "BTC", will be positioned as follows versus the existing transaction types:

Type of order	Trade involves only futures contracts	Trade done on an electronic book	Price determination
"BTC"	Y	Y	"Basis price" entered by participant in the electronic trading book and final futures price calculated by using the traded basis and the close of the underlying interest

b. Description and Analysis of Market Impacts

The Bourse's proposed basis trade on close, or BTC, is a functionality that will allow a market participant to enter an order similar to the BIC (Block trades priced at a basis to the index close described in Section II.a.iii.). The main difference is that the BTC order will be placed and traded on a transparent electronic trading book instead of being pre-negotiated. In addition, the Bourse intends to offer the BTC functionality to all equity futures.

The BTC will allow prices to be entered as a function of the contract's underlying interest and be expressed as a "basis" versus the closing price of the underlying interest (ex.: Buy 100 contracts of SXF @ S&P/TSX 60 index closing level - 5.40 index points, "-5.40" being the "basis"). By specifying the "basis" in the order, the investor will have full control over the execution price and will eliminate the risk of incurring an adverse "slippage" in the traded price of the futures contract versus the closing price of the underlying interest. The investor knows that, once executed, his order will result in trading the SXF futures contract at exactly the desired basis versus its underlying benchmark. Please refer to Appendix A for the proposed description of BTC that the Bourse intends to add in the Rules.

It should be noted that the basis of a futures contract versus its underlying interest can be positive or negative. Trading futures contracts at a positive basis does not necessarily mean that the contracts are purchased at "expensive" levels versus the benchmark, just like trading the futures contracts at a negative basis does not mean the contracts are purchased at "bargain" levels versus the benchmark. Whether a futures contract purchased through a BTC transaction will be purchased at a good price or not will be evaluated in relation with the FV of that futures contract. An investor is said to buy "cheap" futures contracts if he buys them at a basis of "-4.50" when the basis of the futures contracts' FV is "-4.00" or if he buys them at a basis of "+4.50" when the basis of the futures contracts' FV is "+5.00".

Through their design, OTC derivatives allow investors to enter and exit a position at prices based on the market closing price. By offering the same capability through the BTC functionality, the Bourse is likely to attract to the exchange-traded markets more investors currently using OTC derivatives.

A practical example of a BTC transaction details the advantage of the functionality:

During the trading day, at 11:31 am, portfolio manager A is notified that $100,000,000 of new funds will be received by his investment company sometime during the day. Assuming the S&P/TSX 60 index is at 800 and given the notional amount of one SXF futures contract, the $100M correspond to 625 SXF contracts. These funds have to be invested at the market close because the accounting of those new funds assumes they are invested at a price equal to the market close.

The portfolio manager will calculate the FV of the SXF and will conclude that, given the day's interest rates and index dividend yield, the SXF should trade at (should have a FV of) 4.20 index points discount versus the S&P/TSX 60 level, regardless of the index level. As a result, he will enter an order on SXF's BTC trading book to buy 625 contracts at the price of "-4.20". This

means that the 625 SXF contracts will be traded at a price equal to the S&P/TSX60 closing level minus 4.20 index points. Later in the day, at 2:43pm, when the S&P/TSX 60 index is already at a level of 804.50, investor B decides to enter a SXF BTC sell order for 625 contracts at the price of "-4.20". The trade takes place between the two market participants at 2:43pm on the SXF BTC trading book at a price of "-4.20". At that moment, the two investors know that they traded the 625 SXF contracts but the actual price of the SXF contracts will be known after the market close.

After the market close, the closing level of the index is published as 803.30. As a result, the ***SXF BTC trade*** done at 2:43pm transforms into an ***SXF trade*** where investor A buys and investor B sells 625 SXF contracts at a price of 799.10 (= 803.30 - 4.20).

c. Comparative Analysis

Comparable exchanges

For the purpose of the comparative analysis, the Bourse has considered all large equity and index exchanges from the three main financial geographical areas: US, Europe, Australasia. The comparable exchanges selected for comparison are the Chicago Mercantile Exchange (CME) and InterContinental Exchange (ICE) from the US (the two exchanges with the highest equity and index futures volumes in the US), EUREX and Euronext from Europe (the two largest "pan-European" exchanges) and Australian Securities Exchange (ASX), Singapore Exchange (SGX), Hong Kong Exchange (HKEX), Korea Exchange (KRX) and Japan Exchange Group (JPX) from Australasia (the exchanges with the highest equity and index futures volumes in the region).

Comparable functionalities

We have reviewed and compared the various functionalities offered (or not) by the comparable exchanges based on the following scenarios. Assuming a futures contract with ticker "F" whose underlying interest is the equity index "I", an investor can enter a futures position by:

1) ***placing on the electronic trading book of the "F" contract*** an order to ***trade the futures contract*** at a ***specified price*** (for example: "buy 1000 contracts at 821.50");

2) ***notifying the Exchange*** of a ***pre-arranged block trade on the futures contract*** at a ***price expressed as a "basis" versus the closing level of the underlying interest*** (for example: "buy 1000 contracts at a basis of "-4.20" versus the closing level of index "I"); at the end of the day, the price at which the trade in futures "F" has occurred will be calculated by using the "basis" and the closing price of the underlying interest; and

3) ***placing on the electronic trading book of the "basis contract"*** an order to ***trade the "basis"*** of the futures contract at a ***specified level*** (for example: "buy 1000 contracts at a basis of "-4.20"); at the end of the day, the "basis trade" will transform into an "F" futures contract position assumed to have been initiated at a price calculated by using the "basis" and the closing price of the underlying interest.

Based on the foregoing scenarios, the following table specifies the type of contracts and

functionalities offered by the comparable exchanges:

Trading book & order type	CME	ICE	EUREX	Euro-next	ASX	SGX	HKEX	KRX	JPX	MX
Electronic book for futures (1)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Block trade on the futures contract at a price expressed as a basis to index close (2)	N	N	Y	N	N	N	N	N	N	Y
Electronic book for basis (3)	Y	Y	N	N	N	N	N	N	N	N

Source: CME http://www.cmegroup.com/trading/equity-index/btic-block-trades.html
ICE https://www.theice.com/publicdocs/futures_us/TIC_FAQ.pdf
EUREX http://www.eurexchange.com/exchange-en/products/eurex-trade-entry-services/trade-at-index-close

Conclusion of the analysis

The Bourse considers that by offering the proposed BTC functionality, it will remain competitive with the US exchanges offering similar functionalities which are its closest potential competitors in terms of trading time zones and geographical distribution of clients.

d. Proposed Amendments

The Bourse proposes to amend Rule 6 of the Bourse in order to add the BTC functionality described at II.b into the Rules of the Bourse.

Cross Transactions and Prearranged Transactions

The Bourse offers two types of transactions that are used to trade futures contracts (alone, not in conjunction with any other trade in the cash or OTC market): the "Cross" transactions and the "Prearranged" transactions. The two types of pre-arranged transactions differ only by the number of approved participants ("AP") involved: one AP for "cross" transactions and two APs for "committed order" transactions.

A "cross transaction" occurs when two orders of opposite sides originating from the same approved participant are intentionally executed against each other, in the context of the market, in whole or in part as a result of pre-trade discussions.

A "prearranged transaction" occurs when two orders of opposite sides originating from two different approved participants are intentionally executed against each other, in the context of

the market, in whole or in part as a result of pre-trade discussions.

Both types of transactions can be executed through "committed orders". A "committed order" is an order in which the participant specifies the size, price and counterparty that can take the order. Currently, a "prearranged transaction" or a "cross transaction" stipulates a fixed order price. The Bourse proposes to introduce "prearranged transactions", "cross transactions" and "committed orders" on the BTC functionality. The *Procedures applicable to the execution of cross transactions and the execution of prearranged transactions* will be amended accordingly. This will allow participants to execute "cross transactions" and "prearranged transactions" and place "committed orders" at a price that will be expressed as a basis versus the closing price of the underlying interest and place.

No cancel ranges

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.

Currently, the Bourse's Procedure 5 from the *Procedures for the cancellation or adjustment of trades* stipulates the details of the "no cancel ranges" for outright and strategy orders on the S&P/TSX index futures and on share futures. The following table summarizes these details and shows the proposed "no cancel ranges" for the BTC orders on the same futures contracts:

Contract Underlying	Type of order	Existing futures' "No cancel ranges"	Proposed BTC "No cancel ranges"
S&P/TSX Indices	Outright order	1% of the acceptable market price of these futures contracts	0.05% of the acceptable market price of these futures contracts (same as the "no cancel range" for the existing futures' "strategy orders")
	Strategy orders	5% of the increments for the outright month	Not applicable
Canadian shares	Outright orders	1. 0.50$, if the acceptable market price of these futures contracts is less than 25$; 2. 2. 1.00$, if the acceptable market price of these futures contracts is equal to or higher than 25$ but less than 100$; 3. 1% of the acceptable market price of these futures contracts if the acceptable market price of	Same as the existing futures' "no cancel ranges"

Contract Underlying	Type of order	Existing futures' "No cancel ranges"	Proposed BTC "No cancel ranges"
		these futures contracts is equal to or higher than 100$.	

The *Procedures for the cancellation or adjustment of trades* will be amended accordingly.

AMENDMENT PROCESS

The Bourse intends to offer investors currently trading OTC instruments a similar functionality that would allow them to continue benefitting from the characteristics of derivatives products while trading on open, transparent, universal on-exchange platforms.

Finally, when compared to the type of investments that can be done in the cash market, the current proposal offers a functionality that would provide similar benefits to investors wishing to take advantage of the specifics of derivatives instruments over cash securities.

III. IMPACTS ON TECHNOLOGICAL SYSTEMS

Based on a review of the technological requirements, the Bourse has concluded that this initiative will require development work. The development work will impact all components of the Bourse's system. BTC transactions will be matched during trading hours and novated at the clearinghouse level, therefore requiring adequate communication between the trading engine and the clearing systems. At the end of the trading day, the basis trades will be transformed into outright futures contract positions, again requiring well-established messaging amongst the various systems. It should be noted that BTC transactions do not require a settlement price of their own. At the end of the trading day, the basis positions are rather converted into positions on the underlying futures which settle against the futures settlement price.

The Bourse has reached out informally to a limited number of market participants and vendors and asked feedback concerning possible impacts. The surveyed group has highlighted possible development needs. The Bourse will invite the surveyed vendors to conduct a full review of specifications, when available, in order to highlight issues. In addition, the Bourse will invite market participants to raise any impact they may foresee as part of the request for comments process, in order for the Bourse to take those into account in its implementation plan.

IV. OBJECTIVES OF THE PROPOSED AMENDMENTS

The Bourse intends to offer an universal and completely transparent trading tool that allows all investors to post and trade basis-type orders on various types of futures contracts on a fully electronic platform.

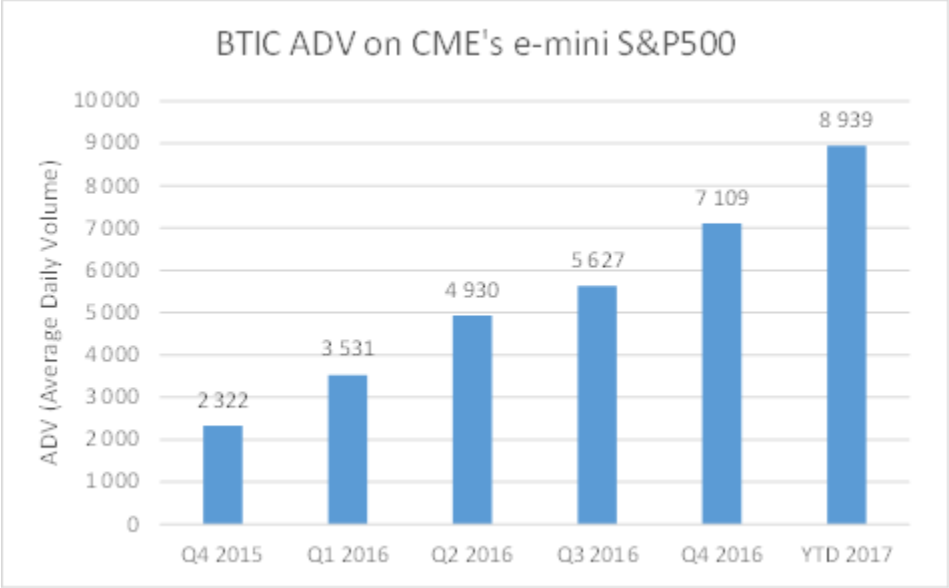
V. PUBLIC INTEREST

One of the main benefits introduced by the BTC is the "lock in" of the basis spread between the futures price and the closing price of the underlying interest.

As described before, the price of the futures contract moves continuously around the FV of the contract. While, in theory, this variation should have equal probability of resulting in prices above or below the FV, investors are generally risk averse and seek to avoid any disadvantageous positioning of the futures contracts price versus the FV. An investor willing to buy the futures contract will not want to pay a price that is higher than the FV whereas an investor willing to sell the futures contract will not want to do so at a price that is lower than the FV. A risk averse investor is likely to prefer a more stable rather than volatile return against the benchmark. Put in portfolio theory terms, the investor is likely to use instruments that will produce a similar return but with lower volatility.

The Bourse believes that "benchmark-conscious investors" will be best served by using the BTC because this functionality allows investors to reduce their return's volatility. Such a functionality offers investors the "best of both worlds": they can take positions in the futures markets and, at the same time, tie the price obtained in the futures transaction prices to the "cash" equity or index prices. Investors can thus access a market - the futures market - that is frequently more liquid and transparent than the "cash" market and eliminate the risk of slippage losses and underperformance versus a benchmark.

The dynamic in the evolution of the volume of "electronic basis trades" executed on CME - the most active "basis trade" exchange among our comparable exchanges - seems to prove that the public interest in the BTC is genuine, as more and more investors are utilizing this functionality:



Source: CME's BTIC weekly reports ftp://ftp.cmegroup.com/btic/

VI. EFFICIENCY

The BTC functionality is expected to enhance both the financial efficiency of the market participants and the market efficiency of the cash and on-exchange derivatives markets.

Financial efficiency

The BTC functionality brings undeniable benefits to all investors, in general, and to "relative investment return objective" investors, in particular, by allowing investors to better control their transaction costs and slippages and increase their chance of producing returns in excess of their benchmarks.

Market efficiency

Many investors currently use cash equities or OTC derivatives in order to achieve their "relative investment return objectives". The BTC functionality will now offer the same conditions (entry and exit prices tied to the underlyings' closing prices) as the cash market MOC orders and the OTC derivatives. As a result, we expect that, once the BTC functionality is offered on the Bourse, many investors will start switching from OTC derivatives and cash equities to the BTC-enhanced exchange-traded derivatives.

In the case of investors currently using OTC derivatives, their migration to BTC-enhanced exchange-traded derivatives is expected to have a direct beneficial effect on the efficiency of both the futures and cash markets through an increase in traded volume, liquidity, price discovery and number of participants on both markets.

The migration of cash equity market investors to BTC-enhanced exchange-traded derivatives is also expected to have a beneficial effect on both markets. The futures market will benefit through increased trading volume, liquidity and number of market participants brought by the BTC-enhanced trades. The cash equity market will benefit from the increased trading volume due, on the one hand, to investors leaving the cash equity market for BTC-enhanced futures and, on the other hand, to the counterparties of the new BTC-enhanced futures positions entering the cash equity market in order to hedge themselves.

In addition to the above, the launch of any new product or functionality increases the arbitrage opportunities between any existing and new instruments. Such arbitrage enables more price discovery and improves overall liquidity in both cash and derivatives markets.

VII. 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.

VIII. ATTACHED DOCUMENTS

Appendix A: Amendments to article 6380 of Rule 6 of the Bourse;
Amendments to the *Procedures applicable to the execution of cross transactions and the execution of prearranged transactions;* and
Amendments to the *Procedures for the cancellation or adjustment of trades.*

6380 Prenegotiation Discussions, Cross Transactions, Prearranged Transactions, Block Trades, Riskless Basis Cross Transactions, ~~and~~ Block Trades Priced at a Basis to the Index Close and Basis Trade on Close

(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08, 29.01.10, 09.06.14, 21.01.16, 00.00.00)

For the purpose of this article, the terms hereunder are defined as follows:

(…)

7) Basis Trade on Close (BTC)

A basis trade on close (BTC) is a Trade effected on the Bourse on a Futures Contract designated by the Bourse that is priced in reference to the closing price of the applicable Underlying Interest, adjusted by a valid price increment (the "basis").

The basis of the BTC and the final Futures Contract price must be fair and reasonable in light of factors including, but not limited to, financing rates, expected dividend income, and time remaining until the applicable Futures Contract expiration. A BTC may result in a final Futures Contract price to be outside of applicable daily price limits.

The final Futures Contract price will be calculated as follows: Underlying Interest closing price + basis (the basis could either positive or negative).

The Underlying Interest closing price will be the last price published by the Toronto Stock Exchange (TSX) at the calculation time on a given day. If no price is available, the Underlying Interest closing price published by TSX on the previous day will be used. Should the Underlying Interest closing price be modified after the calculation time, but before 5:00 pm, the final Futures Contract price will adjusted by the Market Operations department on the same trading day. Should the Underlying Interest closing price change after 5:00 pm, the final Futures Contract price will be adjusted the following trading day. The calculation time may differ from one Futures Contract to another.

In the event of a disruption in the primary market for a given Underlying Interest, a trading halt will be invoked on the BTC by an official of the Bourse. BTC will not be executed on the last day of trading in an expiring contract.

The Bourse will publish by circular the trading schedule, trading hours, calculation time and minimum price fluctuation of each futures contract for which the BTC is offered. The BTC trading schedule may be different from the related Futures Contract trading schedule.

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
Basis Trade on Close: All expiry months	0 second	≥ 100 contracts
Basis Trade on Close: All expiry months	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
Basis Trade on Close: All expiry months	0 seconds	≥ 100 contracts
Basis Trade on Close: All expiry months	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
Basis Trade on Close: 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
Basis Trade on Close: 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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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
Two-Year Government of Canada Bond Futures (CGZ) - Regular strategy orders - Implied Strategy orders	 20 basis points 20 basis points Sum of strategy's individual legs' increments
Five-Year Government of Canada Bond Futures (CGF) - Regular strategy orders - Implied Strategy orders	 20 basis points 20 basis points Sum of strategy's individual legs' increments
Ten-Year Government of Canada Bond Futures (CGB) - Regular strategy orders	 40 basis points 20 basis points
30-Year Government of Canada Bond Futures (LGB) - Regular strategy orders - Implied Strategy orders	 40 basis points 40 basis points Sum of strategy's individual legs' increments
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX Indices and on the FTSE Emerging Markets Index - Regular strategy orders - Basis Trade on Close	1% of the acceptable market price of these futures contracts 5% of the increments for the outright month 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: $0.00 to $5.00 $5.01 to $10.00 $10.01 to $20.00 $20.00 up	 $0.10 $0.25 $0.50 $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: $0.001 to $0.99 $1.00 up	 $0.25 $0.50

DERIVATIVE INSTRUMENT	INCREMENT
Canadian Share Futures Contracts Regular and extended sessions: Early session:	1. 0.50$, if the acceptable market price of these futures contracts is less than 25$; 2. 1.00$, if the acceptable market price of these futures contracts is equal to or higher than 25$ but less than 100$; 3. 1% of the acceptable market price of these futures contracts if the acceptable market price of these futures contracts is equal to or higher than 100$. 5% of the acceptable market price of these futures contracts
Basis Trade on Close: Canadian Share Futures Contracts	1. 0.50$, if the acceptable market price of these futures contracts is less than 25$; 2. 1.00$, if the acceptable market price of these futures contracts is equal to or higher than 25$ but less than 100$; 3. 1% of the acceptable market price of these futures contracts if the acceptable market price of these futures contracts is equal to or higher than 100$.
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.

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