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**CIRCULAR**  
June 10, 2004

## **REQUEST FOR COMMENTS**

### **CROSS TRANSACTIONS, PREARRANGED TRANSACTIONS AND BLOCK TRADES AMENDMENTS TO ARTICLES 6306, 6377 AND 6380 OF THE RULES OF BOURSE DE MONTRÉAL INC. AND DELETION OF ARTICLE 6386**

#### **Summary**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “Bourse”) approved amendments to articles 6377 and 6380 pertaining to prenegotiation discussions, cross transactions, prearranged transactions and block trades, the deletion of article 6386 regarding unacceptable practices, the amendments to article 6306 pertaining to manipulative and deceptive methods of trading, the complete revision of the Procedures for the Execution of Cross Transactions and the Execution of Prearranged Transactions and the new Procedures for the Execution of Block Trades. The analysis explaining the various changes is published with the proposed modifications for a public comment period of 30 days.

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

The Bourse is recognized as a self-regulatory organization (“SRO”) by the Autorité des marchés financiers (the “Autorité”). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its capacity as an exchange, the Bourse takes on responsibilities as a market regulator.

The Board of Directors of the Bourse has the power to approve the adoption or amendment of various Rules and Policies of the Bourse. The Board of Directors has delegated its powers of approval of Rules and Policies to the Rules and Policies Committee. The changes are submitted to the Autorité for approval.

Circular no : 085-2004

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Comments on the proposed amendments to articles 6306, 6377 and 6380 must be submitted within 30 days following the date of publication of this notice in the bulletin of the Autorité. Please submit your comments to:

*Ms. Joëlle Saint-Arnault  
Vice-President, Legal Affairs  
and Secretary  
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A copy of these comments shall also be forwarded to the Commission to :

*Ms. Anne-Marie Beaudoin  
Director – Secretariat  
Autorité des marchés financiers  
800 Victoria Square, 22<sup>nd</sup> Floor  
P.O. Box 246, Tour de la Bourse  
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## **Appendices**

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined following approval by the Autorité des marchés financiers.



## **CROSS TRANSACTIONS, PREARRANGED TRANSACTIONS & BLOCK TRADES AMENDMENTS TO ARTICLES 6306, 6377 AND 6380 OF THE RULES OF BOURSE DE MONTRÉAL INC. AND DELETION OF ARTICLE 6386**

### ➤ **Summary**

Crosses are permitted by the Rules of Bourse de Montréal Inc. (the "Bourse"), but these Rules are ambiguous and silent on the notion of intention. Article 6380 of the Rules prohibits the execution of cross transactions, even when entered unintentionally, if they are not in accordance with the prescribed time delays. This situation restricts the number of legitimate trades which emanate from the same approved participant that are not the result of prenegotiation discussions. In an electronic environment, such a situation can occur frequently.

The notion of prenegotiation discussions is not explicitly defined in the Rules. In fact, article 6386 of the Rules prohibits prearranged transactions. This prohibition is not in line with international standards as will be described later.

Bourse Rules need to be amended to:

- ❖ Permit cross transactions to occur when two orders from the same approved participant are unintentionally executed against each other in whole or in part; and
- ❖ Permit prenegotiation discussions as they are a prerequisite for the negotiation of:

1. most cross<sup>1</sup> transactions;
2. prearranged<sup>2</sup> transactions; and
3. proposed block<sup>3</sup> trades

on the Montreal Automated Trading System (SAM).

In drafting the proposed changes to its Rules and procedures, the Bourse based itself on:

- ❖ Consultations with market participants (approved participants, their clients and restricted trading permit holders); and
- ❖ The practices and standardized parameters for similar products on major foreign electronic derivatives exchanges.

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<sup>1</sup>A cross transaction is a transaction that occurs when two orders of opposite sides originating from the same approved participant are intentionally executed against each other in whole or in part as a result of prenegotiation discussions.

<sup>2</sup>A prearranged transaction occurs where one or more approved participants engage in prenegotiation discussions in order to agree on the terms of the transaction before entering the orders in the electronic trading system.

<sup>3</sup>A block trade is considered having occurred when approved participants and/or clients engage in prenegotiation discussions to arrange large size transactions away from the electronic trading system at prices mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.

## I DETAILED ANALYSIS

### A -- Proposed Amendments to the Rules

#### 1. Prenegotiation Discussions

- ❖ The Bourse proposes to amend article 6380 of its Rules to include a definition of prenegotiation discussions. Prenegotiation discussions will be permitted, subject to client consent, prior to the execution of cross transactions, prearranged transactions and block trades. The reason for the introduction of this definition is that these types of transactions may be the result of prenegotiation discussions between approved participants and their clients. Therefore, it is important to clearly define the meaning of the expression to avoid any misinterpretation.

#### 2. Cross Transactions and Prearranged Transactions

- ❖ The Bourse also proposes to amend article 6380 of its Rules to include definitions of cross transactions and prearranged transactions. It is proposed to delete article 6386 so that prearranged transactions be no longer prohibited. The reason for the removal of this prohibition is that other types of transactions that the Bourse proposes to permit, such as block trades, can be prearranged transactions.
- ❖ The Bourse proposes to permit the execution of cross transactions and prearranged transactions under certain conditions, which are specified in article 6380. These conditions are the following :
  - i) the intended transactions are on eligible products;
  - ii) the orders are for a quantity equal or greater than the minimum quantity

threshold established for the eligible product;

- iii) the transaction occurs at or between the current best bid and current best offer available in the electronic trading system;
  - iv) the prescribed time delay between the display of an order to the market at or between the current best bid and the current best offer and the display of an opposite side order is respected in order to allow approved participants to show their interest; and
  - v) the orders are executed in accordance with the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions; (see Appendix I)
  - vi) clients must consent to allow approved participants to engage in prenegotiation discussions with other market participants with respect to an order.
- ❖ The eligible products, the prescribed time delays and the minimum quantity thresholds will be determined by the Bourse and published in the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions. In addition, a provision has been incorporated into article 6380 stating that it is forbidden to use the hidden quantity functionality of the electronic trading system of the Bourse to execute cross transactions or prearranged transactions. The above-mentioned Procedures, like all procedures of the Bourse, are distributed to approved participants and updated on a regular basis.
  - ❖ The proposed amendment to article 6380 which defines a cross transaction, specifies that cross transactions occur when two orders of opposite sides originating from the same approved participant are executed against

each other in whole or in part as a result of prenegotiation discussions.

- ❖ The reference to the execution of cross transactions by restricted trading permit holders in article 6380 has been deleted because the Bourse does not permit these persons to execute cross transactions. The reason for such a prohibition is that these persons trade exclusively for their own account.
- ❖ Also, the reference to the “eligible portion” of a transaction in article 6380 was deleted and replaced by the conditions enumerated in article 6380 cited above.
- ❖ Cross transactions and prearranged transactions will be permitted for futures contracts and options contracts designated by the Bourse.

### 3. Block Trades:

- ❖ The current Rules of the Bourse do not permit approved participants to arrange large size transactions at a single price away from the electronic market (block trades). In order to permit block trades, the Bourse proposes to amend Article 6380 of the Rules of the Bourse.
- ❖ The notion of prenegotiation discussions is a condition required for the arrangement of block trades. The rules and procedures proposed would permit to arrange block trades at prices that are different from the prevailing market prices, that is at prices which the Bourse would consider “fair and reasonable” in light of the prices and sizes of the transactions in the cash and futures markets.
- ❖ As capital markets continue to evolve and grow, professional investors are increasingly looking for more efficient ways to transact large orders. Many important investors overlook exchange markets that do not permit

large orders to be transacted with certainty of execution, preferably at one price. As a result, this business is often transacted away from the exchange. In situations where a market is not sufficiently accommodative to permit large orders, upstairs or non-centrally traded markets may grow in relevance. In general, upstairs markets have seen increased activity in recent years, principally because they minimize the cost and uncertainty associated with transacting large orders relative to similar transactions in central markets.

- ❖ Block trading enables approved participants to arrange large volume transactions away from the electronic exchange market that might have otherwise a potentially negative impact on the organized electronic market. When a market cannot assimilate in an efficient manner such large orders, price gaps can occur often resulting in unnecessary and unhealthy volatility.
- ❖ In response to this, the Bourse proposes block trading rules to attract volume to the Bourse’s products by offering approved participants certainty of price, immediacy of execution in the transaction of large orders and the benefits associated with a clearing corporation having a “AA” credit rating. Block trades will facilitate greater market efficiency through improved execution quality.
- ❖ While the block trade must be executed at a “fair price”, it could happen that the price at which the transaction will be done is outside the prevailing best bid and offer in the central order book.
- ❖ Block trading is not expected to diminish the role of the organized electronic market, which will continue to be the central place for trading the Bourse’s products.
- ❖ Minimum block trade volume thresholds will be determined by the Bourse. In general, the minimum quantity should be large enough to represent a marked departure from the size of

otherwise large orders that can be readily observed being executed in that product on the market.

- ❖ For an order to be eligible for block trading, its size must be large enough that its execution on the regular market would most likely be disruptive for the market, and likely be executed at an average price that would reasonably be deemed to be coherent with the underlying cash market or correlative products at that time.
- ❖ Block trades will be permitted for all futures contracts and options on futures contracts designated by the Bourse.

The Procedures for the Execution of Block Trades are attached as Appendix II.

#### **4. Related Articles:**

- ❖ The second paragraph of article 6386 regarding the “unacceptable practice” described as “the fact, at the close of a trading session, to enter or to accept to enter a bid or an ask to execute a trade for the purpose of establishing an artificial price or effecting a high or low closing price in a derivative instrument traded on the Bourse” has been incorporated in article 6306.
- ❖ Article 6306 pertaining to manipulative and deceptive methods of trading has been amended in order to make it clearer and to better reflect the practices used by the Market Surveillance Department of the Regulatory Division to detect potential trading violation more efficiently.
- ❖ Article 6377 has also been amended in order to require that records maintained by approved participants contain information relating to cross transactions, prearranged transactions and block trades that will be permitted by the regulatory amendments discussed above. The main amendments to article 6377 that are proposed are the following ones:
  - i) the addition to the record content requirements of paragraph 2 of a requirement to indicate if an order was executed pursuant to the provisions of article 6380. This means that if an order was executed either as a cross transaction, a prearranged transaction or a block trade, approved participants will have to identify the order and its execution as such in their records. This will allow the approved participant to have a better audit trail of these types of transactions;
  - ii) Paragraph 3 has also been amended by adding a requirement to indicate on order tickets any special instructions that may apply to orders. Cross transactions, prearranged transactions and block trades will generally involve discussions with and special instructions from the client. Order tickets should therefore contain information regarding those discussions and instructions.
- ❖ Other minor amendments have also been made to article 6377 including the addition in paragraph 2 of a requirement to include in the information recorded an indication of the time at which the order was received and a reduction of the record retention period in paragraphs 2 and 4 from seven years to five years since this retention period appears to be the standard one used by most markets.

## **B -- Summary of Arguments**

### **1. Cross Transactions and Prearranged Transactions**

The Bourse proposes to allow these types of transactions for several reasons:

- ❖ Make it easier to execute cross transactions and prearranged transactions according to well defined conditions;

- ❖ Harmonize its practices with those of major foreign electronic derivatives exchanges; and
- ❖ Permit the introduction of block trades which are by definition prearranged transactions.

## 2. Block Trades

The Bourse proposes to introduce block trades for the following reasons:

- ❖ Accommodate large order activity on the Bourse that would otherwise be negotiated away from the organized market;
- ❖ Facilitate greater market efficiency through improved execution quality and price certainty of large transactions for approved participants; and
- ❖ Align the Bourse practices with international best practices.

## C -- Impact of Proposed Rules

In determining to allow for cross transactions, prearranged transactions and block trades, the Bourse has developed standardized control parameters such as prescribed time delays and minimum quantity threshold levels, determined in collaboration with approved participants and their clients on a per product basis and based on the practices of major foreign electronic exchanges, in order not to adversely impact:

- ❖ liquidity;
- ❖ price;
- ❖ transparency; and
- ❖ the Bourse's approved participants and their clients who are active on its market.

The Bourse's approved participants and their clients stand to benefit from the revised rules and procedures as they will facilitate the execution of cross transactions, prearranged transactions and block trades for all futures contracts and options contracts above a predetermined volume in addition to:

1. providing approved participants with rules and procedures that respond to their needs;
2. permit the Market Monitoring Department of the Bourse to better monitor these types of transactions; and
3. permit the Market Surveillance Department of the Regulatory Division to be able to more efficiently impose any necessary sanctions that could result from an infraction to the Bourse's rules and procedures.

## D -- Market Consultation

The Bourse performed informal consultations with its market participants including:

- ❖ approved participants;
- ❖ clients of approved participants; and
- ❖ restricted trading permit holders.

As a result of these consultations with market participants, the following areas of interest were identified as requiring improvement and/or implementation:

- ❖ Cross transactions;
- ❖ Prearranged transactions; and
- ❖ Block trades

## E -- International Benchmarking

In addition to consulting market participants, the Bourse also conducted an international benchmarking analysis for all three above listed areas of interest and based itself on the practices of major foreign electronic exchanges for similar products gathered in the benchmarking analysis to draft the proposed rules and procedures.

The rules and procedures proposed by the Bourse are consistent with the rules and procedures found on many major foreign exchanges. The international benchmarking research shows that practically all the major electronic derivatives exchanges in the world allow cross transactions,

prearranged transactions and block trades that result from prenegotiation discussions within pre-established parameters for different products.

In establishing the parameters according to which cross transactions, prearranged transactions and block trades can occur, the Bourse took into consideration:

- ❖ Consultations with market participants in setting prescribed time delays and minimum quantity threshold levels for the eligible products; and
- ❖ The practices and parameters for similar products on major foreign electronic exchanges.

The result of the international benchmarking is attached as Appendix III.

## **F – Corporate Decision**

After the completion of the Bourse's consultations with its market participants, international benchmarking analysis, and evaluation of the impact of the proposed amendments to the rules and procedures on the Bourse's markets and participants, management submitted its findings and proposals to the Bourse's Rules and Policies Committee for revision and approval.

## **G -- Public Interest**

This proposal is designed to amend and clarify the existing rules and procedures of the Bourse. The rules and procedures permitting cross transactions, prearranged transactions and block trades have been developed in conjunction with market participants on a per product basis and are based on the practices of major foreign electronic exchanges, in order not to adversely impact:

- ❖ liquidity;
- ❖ transparency; and

- ❖ all of the Bourse's market participants.

In the public's interest and in order not to negatively impact the Bourse's markets and participants, the Bourse has developed standardized control parameters to permit cross transactions, prearranged transactions and block trades.

## **H -- Summary**

The management of the Bourse recommended that the Rules and Policies Committee approves the proposed amendments to articles 6377 and 6380 pertaining to prenegotiation discussions, cross transactions, prearranged transactions and block trades, the deletion of article 6386 regarding unacceptable practices, the amendments to article 6306 pertaining to manipulative and deceptive methods of trading, the complete revision of the Procedures for the Execution of Cross Transactions and the Execution of Prearranged Transactions and the new Procedures for the Execution of Block Trades.

## **II SOURCES**

### **References:**

1. Articles 6306, 6377, 6380 and 6386 of the Rules of Bourse de Montréal Inc.
2. Procedures applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions (Appendix I);
3. Procedures for the Execution of Block Trades (Appendix II);
4. The Bourse's international benchmarking analysis for Cross Transactions, Prearranged Transactions and Block Trades (Appendix III).



**6306 Manipulative or Deceptive Methods of Trading**  
(10.10.91, [00.00.02](#))

~~No member, person associated with a member or restricted permit holder shall use or knowingly participate in the use of any manipulative or deceptive methods of trading in connection with the purchase or sale of any listed security which creates or may create a false or misleading appearance of trading activity or, an artificial price for such security.~~

No approved participant, person employed by or acting on behalf of an approved participant, person associated with an approved participant or restricted trading permit holder may use or knowingly participate in the use of any manipulative or deceptive methods of trading in connection with the purchase or sale of any securities or derivative instruments listed on the Bourse.

Without in any way limiting the generality of the foregoing, the following shall be deemed manipulative or deceptive methods of trading :

~~a) making a fictitious transaction or giving or accepting an order which involves no change in the beneficial ownership of such security;~~

a) effecting a transaction or a series of transactions or ~~to~~ posting purchase or sale orders on securities or on derivative instruments traded on the Bourse alone or with one or more persons, intentionally or repeatedly and with the objective of obtaining an advantage;

b) creating a false or misleading appearance of trading in such securities or derivative instruments;

c) entering orders or effecting transactions whose execution does not result in any change in the beneficial or economic ownership of the relevant securities or derivative instruments;

d) effecting a transaction which creates new highs or new lows in such securities or derivative instruments during the same trading session without being justified by market conditions;

e) entering orders or effecting transactions with the purpose of triggering stop orders;

f) entering orders or effecting a transaction with the purpose of transferring a financial advantage to another person.

~~b) entering an order or orders for the purchase or sale of a security with the knowledge that an off-setting order or orders of substantially the same size, at substantially the same time and, at substantially the same price, has been or will be entered by or for the same or different persons for the purpose of creating a false or misleading appearance of active public trading in a security or with respect to the market price of a security;~~

~~e) making purchases or offers to purchase any security at successively higher prices, or sales or offers to sell any security at successively lower prices, for the purpose of creating or inducing a false or misleading appearance of trading in such security or for the purpose of unduly or improperly influencing the market price of such security;~~

~~d) effecting, alone or with one or more persons, a series of transactions in any security creating actual or apparent active trading in such security, or raising or depressing the price of such security, for the purpose of inducing the purchase or sale of such security by others.~~

**6377 Keeping Records of Orders**

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 00.00.02)

- 1) With the exception of orders ~~transmitted~~ entered by a market marker to comply with obligations required by his role and responsibilities, a record must be kept by each approved participant of each order received for the purchase or sale of securities or derivative instruments traded on the Bourse.
- 2) The record of each order ~~filled~~ executed must indicate the person who received the order, the time the order was received, the time ~~the~~ it ~~order~~ was entered into the electronic trading system of the Bourse, the price at which it was executed, ~~the~~ its time of execution ~~of the order~~, its classification pursuant to the provisions of article 6376, the approved participant from or to or through whom the security or derivative instrument traded on the Bourse was purchased or sold and as the case may be, if the order was executed pursuant to the provisions of article 6380. ~~s~~Such record must be retained for ~~seven~~ five years.
- 3) No order can be executed on the electronic trading system of the Bourse until it has been identified as above by the approved participant who received the order.

All orders for securities or derivative instruments traded on the Bourse must be time-stamped and, if applicable, indicate any special instructions.

- 4) The record of each order which remains unfilled must indicate the person who received the order, its time of receipt and its classification pursuant to the provisions of article 6376 and such record must be retained for seven years.
- 5) All telephone conversations related to trading in securities or derivative instruments listed on the Bourse must be recorded. The following conditions apply:
  - i) Recordings must be kept by ~~A~~ approved ~~P~~ participants for a period of one year.
  - ii) Authorization to consult the recordings of telephone conversations shall be granted in the case of an investigation by the Bourse, the ~~Commission des valeurs mobilières du Québec~~ Autorité des marchés financiers or by any other regulatory body with which the Bourse has concluded an information sharing agreement;
  - iii) In the case of litigation or in disciplinary matters, the recording may be filed as evidence;
  - iv) Approved participants must advise their clients of the recording ~~process~~ of telephone conversations and abide by comply with the provisions of article 7452 of Rule 7.
- 6) Where an order ticket is completed, it must comply, for what concerns the information that must be entered on it, with the requirements of Section 11.2 of National Instrument 23-101 regarding Trading Rules.

- 7) Exceptionally, the Bourse may grant exemptions from all or any part of the requirements set in paragraphs 1) to 5) above.

**6380 Prenegotiation Discussions, Crosses Transactions, Prearranged Transactions, and Block Trades**  
(25.09.00, 24.09.01, 29.10.01, 00.00.02)

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

- ~~a) Where an approved participant or a restricted permit holder has a buy and a sell order at the same price, he may cross in whole or in part the eligible portion while complying with the priority of bids and offers.~~
- ~~b) Unless an approved participant or a restricted permit holder has completed a cross as mentioned in paragraph a), after the input of an order, it is forbidden to input an opposite side order which could be immediately executed in whole or in part with the first one without leaving between the two inputs the prescribed delay allowing the market to declare its interest. The delay between the two inputs for derivatives instruments traded on the Bourse will be determined by the Bourse periodically to reflect market conditions.~~

**1) Prenegotiation Discussions**

Prenegotiation discussions are considered having occurred when approved participants engage in negotiations with each other or with other approved participants and/or clients prior to entering orders which may result in a cross transaction, a prearranged transaction, a block trade or an exchange for physicals transaction. Clients must consent to allow approved participants to engage in prenegotiation discussions with other approved participants and/or clients with respect to an order.

**2) Crosses Transactions**

A cross transaction is considered having occurred when two orders of opposite sides originating from the same approved participant are intentionally executed against each other in whole or in part as a result of prenegotiation discussions.

- ~~b) Execution of prearranged transactions are permitted by the Bourse when:~~
- ~~i) they are on admissible products~~
  - ~~ii) the orders are for a quantity equal or greater than the admissible quantity threshold established for that product;~~
  - ~~iii) the transaction must occur at or between the current best bid and current best offer available in the electronic trading platform;~~
  - ~~iv) the prescribed time delay between the input of an order and its opposite side order is respected in order to allow market participants to show their interest;~~
  - ~~iv) they are executed in accordance with the Procedure applicable to the execution of crosses.~~

~~The admissible products, the prescribed time delays and the admissible quantity thresholds are determined by the Bourse and published in the Procedure applicable to the execution of crosses and the execution of prearranged transactions.~~

~~It is forbidden to use hidden quantity orders to execute a cross.~~

### **23) Prearranged Transactions**

A prearranged transaction is considered having occurred when one or more approved participants engage in prenegotiation discussions in order to agree on the terms of a transaction before entering the orders in the electronic trading system of the Bourse.

~~b) —~~ Execution of **cross transactions and** prearranged transactions are permitted by the Bourse when:

~~i) they are on eligible securities or derivative instruments;~~

~~ii) the orders are for a quantity equal to or greater than the minimum quantity threshold established for that eligible security or derivative instrument;~~

~~iii) the transaction must be effected at a price that is at or between the current best bid and current best offer available in the electronic trading system of the Bourse;~~

~~iv) the prescribed time delay between the input of an order and its opposite side order is respected in order to allow market participants to show their interest;~~

~~v) the transactions are executed in accordance with the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.~~

The eligible securities or derivative instruments, the prescribed time delays and the minimum quantity thresholds are determined by the Bourse and published in the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.

It is forbidden to use the hidden quantity functionality of the electronic trading system of the Bourse to execute a cross transaction or a prearranged transaction.

### **34) Block Trades**

~~a) A block trade is considered having occurred when one or more approved participants and/or clients engage in prenegotiation discussions to arrange large size transactions away from the electronic trading system of the Bourse at prices mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.~~

~~b) —~~ An approved participant of the Bourse may execute a block trade for a quantity equal to or greater than the applicable minimum volume threshold in a security or derivative instrument designated by the Bourse pursuant to the following conditions:

i) a block trade may be arranged in a designated security or derivative instrument only during the trading hours and business days authorized by the Bourse. Once a block

trade has been arranged, an approved participant must submit details of the block trade to the Bourse as soon as practicable and in any event within the period of time prescribed by the Bourse.

- ii) a block trade may be arranged only in a security or derivative instrument that has been designated by the Bourse for that purpose. Such designations will be published by the Bourse, together with the minimum volume thresholds applying to those designated securities or derivative instruments. Approved participants are permitted to enter into block trades in any strategy recognized by the Bourse.
- iii) where a strategy involves the trading of two or more different securities or derivative instruments, the smaller of the minimum volume thresholds of the securities or derivative instruments comprised in the block trade will be applied to each of these securities or derivative instruments. Where the strategy involves the trading of two or more different contract months and/or strike prices of the same contract month, the minimum volume threshold will apply to each leg of the trade, except where specific provision has been made within the published minimum thresholds.
- iv) Approved participants may not aggregate separate orders in order to meet the minimum volume thresholds.
- v) the price at which a block trade is arranged must be “fair and reasonable” in light of (i) the size of such a block trade; (ii) currently traded prices and bid and ask prices in the same contract, at the relevant time; (iii) currently traded prices and bid and ask prices in other contract months for futures contracts or other option series for options contracts; (iv) currently traded prices and bid and ask prices in other relevant markets, including without limitation the underlying markets; (v) the volatility and liquidity of the relevant market; and (vi) general market conditions.

~~vi) vi) block trades shall not set off special terms orders or otherwise affect orders in the regular market.~~

~~vii) vii) It is strictly prohibited for an approved participant, for both the buyer and the seller, to enter into a block trade to circumvent the contract month roll in the corresponding security or derivative instrument.~~

The eligible securities or derivative instruments and the minimum quantity thresholds are determined by the Bourse and published in the Procedures for the eExecution of Block Trades.

**6386 Unacceptable Practices**  
(25.09.00, 24.09.01, abr. 00.00.02)

~~The following are unacceptable practices:~~

- ~~— to make a prearranged transaction;~~
- ~~— the fact, at the close of a trading session, to enter or to accept to enter a bid or an ask to execute a trade for the purpose of establishing an artificial price or effecting a high or low closing price in a derivative instrument traded on the Bourse.~~



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

In accordance with article 6380 of the Rules of Bourse de Montréal Inc. (the “Bourse”), the following are the eligible products, the prescribed exposure time delays which must occur at or between the current best bid and the current best offer available in the electronic system of the Bourse and the minimum quantity thresholds.

<b>ELIGIBLE PRODUCTS</b>	<b>PRESCRIBED TIME DELAY</b>	<b>MINIMUM QUANTITY THRESHOLD</b>
<b>Three-month Canadian Bankers’ Acceptance Futures Contracts (BAX):</b>		
1 <sup>st</sup> four quarterly months –not including serial months	5 seconds	1 contract
Remaining expiry months and strategies	15 seconds	1 contract
<b>Thirty-day Overnight “Repo” Rate Futures Contracts (ONX):</b>		
Front month	5 seconds	1 contract
Remaining expiry months and strategies	15 seconds	1 contract
<b>Government of Canada Bond Futures Contracts:</b>		
All expiry months and strategies	5 seconds	1 contract
<b>Index Futures Contracts:</b>		
All expiry months and strategies	5 seconds	1 contract
<b>Options on Three-month Canadian Bankers’ Acceptance Futures Contracts (OBX):</b>		
All expiry months and strategies	15 seconds	1 contract

## APPENDIX I

<b>Equity Options (1):</b>		
All expiry months and strategies	30 seconds	100 contracts
<b>Index Options (1) :</b>		
All expiry months and strategies	15 seconds	50 contracts
<b>Bond Options (1):</b>		
All expiry months and strategies	15 seconds	50 contracts

Chronological priority of orders must be respected with regards to the posting of the originating order first, when executing a cross or prearranged transaction.

### (1) Equity Options, Index Options and Bond Options Contracts

Equity options, index options and bond options are products for which market makers are assigned. In order to encourage the market making activities, cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

#### **Procedure for transactions with a 50% guaranteed minimum (residual quantity equal or greater than the minimum quantity threshold):**

The 50% execution guarantee applies only if the residual quantity (described below) is equal to or greater than the minimum quantity threshold.

The approved participant must contact a market official at 1888-693-6366 or at (514) 871-7871 and provide details of the intended transaction: total quantity which must be equal to or greater than the minimum quantity threshold, price, side(s) of the transaction on which the approved participant is required to give priority.

The approved participant must ensure that all existing disclosed orders on SAM, regardless of type of orders, which are at limit prices better than or equal to the intended transaction price are executed before completing such transaction. The market official will ensure, in collaboration with the approved participant, that this requirement is met;

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.

If the residual quantity is less than the minimum quantity threshold, the approved participant must follow the procedure applicable to transactions with no minimum guaranteed volume, described further below.

If the residual quantity of the intended transaction is equal to or greater than the minimum quantity threshold, a market official will contact the market makers and inform them of

## APPENDIX I

the residual quantity covered by the transaction and the limit price. The market official will expose to the market makers active on the class the side of the transaction on which the approved participant is required to give priority.

Market makers will be permitted to participate to the transaction up to a total maximum of 50% of the quantity of the original intended transaction<sup>1</sup>

The approved participant will be permitted to execute the transaction for the remaining quantity (a minimum of 50% of the residual quantity, plus any quantity not taken of the 50% of the original intended transaction quantity that had been shown to the market makers and to the market).

### **Procedure for transactions with no guaranteed minimum volume (residual quantity smaller than the minimum quantity threshold):**

- Approved participants wishing to make a cross transaction or a prearranged transaction must issue a Request For Quote (RFQ) for the total intended transaction quantity and must then respect a delay that is not less than the prescribed time delay applicable to the specific product before entering the orders into the trading system.

### ***Sponsored Options***

Cross transactions and prearranged transactions are not permitted on sponsored options listed on the Bourse.

## **MISCELLANEOUS**

Eligible products, their respective minimum quantity 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.

Bundling of orders to meet the minimum quantity threshold is not permitted.

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<sup>1</sup>*In the case where the total quantity requested by the market makers is equal to or less than the 50% of the quantity of the original intended transaction shown to them, each order will be executed entirely. If the total market makers' interest exceeds the quantity shown to them, each will receive the lesser of the following quantities: (a) an equal portion for each of them or (b) the quantity they requested. A market maker cannot increase the quantity allocated to him by proposing a price better than the intended transaction price. The quantity allocated to a market maker will not be based on previous executions relating to existing orders in the book at prices equal to or better than the intended transaction price.*





### PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

- a) Once a block trade has been arranged, in accordance with the predetermined minimum quantity threshold level as determined and published by the Bourse, details of the block trade must be reported to the Bourse by contacting a market official of the Bourse's Market Monitoring Department at 1-888-693-6366 or at (514) 871-7871 within the period of time prescribed by the Bourse .
- b) Approved participants for both the seller and buyer must complete and submit the Block Trade Reporting Form (Attachment I) or such other notification as prescribed by the Bourse to a market official of the Bourse's Market Monitoring Department for validation.
- c) A market official will check the validity of the block trade details submitted by the approved participant(s).
- d) Confirmation by a market official of a block trade transaction will not preclude the Bourse from initiating disciplinary procedures in the event that the transaction is subsequently found to have been made other than in compliance with the rules.
- e) Once the block trade has been validated, the following information with respect to the block trade will be disseminated by the Bourse:
  - i) security(ies) or derivative instrument(s) and contract month(s);
  - ii) price of each contract month(s) and strike price(s) (as applicable); and
  - iii) volume of each contract month.
- f) Upon request by the Bourse 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. Failure to provide satisfactory evidence of compliance with these Rules may result in the initiation of disciplinary action.
- g) All futures contracts and options on futures contracts listed on the Bourse are eligible for block trading.



In accordance with article 6380 of the Rules of Bourse de Montréal Inc. (the “Bourse”), the following are the eligible securities and derivative instruments, the relevant prescribed time delays and the minimum quantity thresholds for the execution of block trades.

<b>ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS</b>	<b>PRESCRIBED TIME DELAY</b>	<b>MINIMUM QUANTITY THRESHOLD</b>
	(As soon as practicable and in any event within the following time delay)	
<b>Three-month Canadian Bankers’ Acceptance Futures Contracts (BAX):</b>	15 minutes	5 000 contracts
<b>Thirty-day Overnight “Repo” Rate Futures Contracts (ONX):</b>	15 minutes	1 000 contracts
<b>Ten-year Government of Canada Bond Futures Contracts (CGB):</b>	15 minutes	1 000 contracts
<b>Two-year Government of Canada Bond Futures Contracts (CGZ):</b>	15 minutes	3 000 contracts
<b>S&amp;P/TSX 60 Index Futures Contracts (SXF):</b>	15 minutes	250 contracts
<b>Sectorial Index Futures Contracts:</b>	15 minutes	1 000 contracts
<b>Options on Three-month Canadian Bankers’ Acceptance Futures Contracts (OBX):</b>	15 minutes	2 000 contracts



**Montréal  
Exchange**

**APPENDIX II**

**ATTACHMENT I**

***Block Trade Reporting Form***

Approved participants must complete all sections of this form legibly and accurately.

This form is to be completed and faxed to Market Monitoring at (514) 871-3592.

A market official can be reached at 1-888-693-6366 or at (514) 971-7871 .

<b>TIME AND DATE OF TRADE:</b>	
<b>EXECUTING PARTICIPANT NAME AND TRADING ID (BUY):</b>	
<b>CLEARING FIRM NAME AND ID (BUY):</b>	
<b>EXECUTING PARTICIPANT NAME AND TRADING ID (SELL):</b>	
<b>CLEARING FIRM NAME AND ID (SELL):</b>	
<b>CONTACT PHONE NUMBER:</b>	
<b>CONTACT FAX NUMBER OR EMAIL ADDRESS:</b>	

<b>Derivative Instruments</b>	<b>Future Contract/ Call/ Put</b>	<b>Contract Month</b>	<b>Option Strike Price (if applicable)</b>	<b>Number of Contracts</b>	<b>Price</b>	<b>Strategy Type* (if applicable)</b>

For Montréal Exchange Staff Only:

**Time and Date of receipt:**  
\_\_\_\_\_

**Montréal Exchange authorized signature:**  
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The details on this form are accepted by the Montréal Exchange strictly on the understanding that the Montréal Exchange accepts no responsibility nor liability for the accuracy or completeness of the details as provided by the approved participant.

\* Each leg of a strategy trade should be listed separately.

## APPENDIX III

### INTERNATIONAL BENCHMARKS SUMMARY FOR PRE-ARRANGED TRANSACTIONS

EXCHANGE	PRODUCT TYPES	PRE-ARRANGED TRANSACTIONS	COMMENTS
Euronext (LIFFE)	- Futures & Options on Futures  - Options	Allowed	Must respect Cross or Off Order Book Transaction procedures.
Globex (CME)	- Futures & Options on Futures	Allowed with customer consent	Must respect Cross or Block Transaction procedures.
Eurex	- Futures & Options on Futures  - Options	Allowed	Must respect Cross or Block Transaction procedures.
E-CBOT	- Futures & Options on Futures	Allowed with customer consent	Must respect Cross or Block Transaction procedures. Prohibited during open outcry trading hours on all contracts traded by open outcry.
Sydney Futures Exchange (SFE)	- Futures & Options on Futures	Allowed with customer consent. Written consent is necessary for Block Trades.	Must respect Cross or Block Transaction procedures. Not allowed on outright interest rate futures contracts.
Eurex us	- Futures & Options on Futures	Allowed with customer consent	Must respect Cross or Block Transaction procedures.
CBOE	- Options	N/A	Limited regulation for the electronic platform.
CFE	- Futures	Allowed with customer consent	Must respect Cross or Block Transaction procedures.
BOX	- Options	No mention of pre-arranged ban or approval	One can match orders through the PIP (Cross) function and respect the PIP procedure.
ISE	- Options	Not allowed	There is a "Cross" function available.
ME (Proposal)	- Futures & Options on Futures  - Options	Allowed	Must respect Cross procedure.

## APPENDIX III

### INTERNATIONAL BENCHMARKS SUMMARY FOR CROSSES

EXCHANGE	PRODUCT TYPES	CROSS PROCEDURE	TIME DELAYS
Euronext (LIFFE)	- Futures & Options on Futures  - Options	- Futures : If bid/ask is available, then 0 seconds delay. If bid/ask is N/A, then RFQ 5 seconds delay.  - Options : If bid/ask is available, then 0 seconds delay. If bid/ask is N/A, then RFQ 10 seconds delay.	0, 5 or 10 sec
Globex (CME)	- Futures & Options on Futures	- Futures : 5 seconds delay between posting and execution.  - Options on Futures : 15 seconds delay between posting and execution.	5 or 15 sec
Eurex	- Futures & Options on Futures  - Options	-Futures : minimum quantity of 5 contracts or 50% of cross requested amount if this amount is less than 5 contracts. Must submit a cross request, a minimum 5 seconds and a maximum of 65 seconds delay between posting and execution.  -Options : minimum quantity equal to the minimum market maker quote size or 50% of cross requested amount if this amount is less than the minimum market maker quote size. Must submit a cross request, a minimum 5 seconds and a maximum of 65 seconds delay between posting and execution.	5 sec < cross< 65 sec
E-CBOT	- Futures & Options on Futures	-Futures :If opposite orders are entered unknowingly they can be submitted to the market without delay, if orders are pre-arranged must submit a cross request, 5 seconds delay between posting and execution, if orders are received as a two-sided order 5 seconds delay between posting and execution.  -Options on Futures & Strategies: If opposite orders are entered unknowingly they can be submitted to the market without delay, if orders are pre-arranged must submit a cross request, 5 seconds delay between posting and execution, if orders are received as a two-sided order 5 seconds delay between posting and execution.	5 or 15 sec
Sydney Futures Exchange (SFE)	- Futures & Options on Futures	-Futures : Not available on outright interest rate futures contracts.  -Options on Futures : Request for quote;10 seconds delay between posting and execution for outright options (must not exceed 60 seconds).  -Strategies : Request for quote; 30 seconds delay between posting and execution (must not exceed 60 seconds).	10 sec < cross< 60 sec or 30 sec < cross< 60 sec
Eurex us	- Futures & Options on Futures	-Futures : 5 seconds delay between posting and execution.  -Options on Futures : 15 seconds delay between posting and execution.	5 or 15 sec
CBOE	- Options	- Options : Crossing mechanism for eligible quantity of 50 contracts or more, request for quote;10 seconds delay between posting and execution, (40% guaranteed).	10 sec
CFE	- Futures	- Futures: with prescribed delay between posting and execution (RFQ function).	5 sec
BOX	- Options	- Options : Allowed using the PIP function. 3 seconds auction time delay, no minimum quantity.(40% of quantity guaranteed).	3 sec
ISE	- Options	- Options : Allowed using Facilitating Mechanism Function, orders of 50 contracts or more, 10 seconds delay, guaranteed fill for client, (40% of original "cross" size guaranteed for facilitating Member).	10 sec
ME (Proposal)	- Futures & Options on Futures  - Options	- Futures : <u>BAX</u> :first four quarterly; 5 sec. (no min vol), remaining months + strategies; 15 sec. (no min vol), <u>SXF, CGB &amp; CGZ</u> : all expiries and strategies 5 sec (no min vol) . <u>ONX</u> ; first quarterly; 5 sec (no min vol), remaining months + strategies; 15 sec (no min vol). <u>OBX and Sectorials</u> : all expiries and strategies; 15 sec. (no min vol). <u>Equity Options</u> : >99 cts; 30 sec. <u>Index Options</u> : >49 cts; 15 sec. <u>Bond Options</u> : >49 cts; 15 sec.	0, 5, 15 or 30 sec

## APPENDIX III

### INTERNATIONAL BENCHMARKS SUMMARY FOR BLOCK TRADES

EXCHANGE	PRODUCT TYPES	BLOCK TRADE FACILITY	CLIENT CONSENT	MINIMUM VOLUME	EXCHANGE NOTIFICATION	TIME DELAY	PRICING
Euronext (LIFFE)	- Futures & Options on Futures - Options	Yes. For eligible contracts.	Yes. Must be a "Block Trade Client".	Yes. Can't aggregate orders to meet min. volume.	3 min.	None. Market maker may have a participation right.	Fair Market Value. May affect high/low.
Globex (CME)	- Futures & Options on Futures	Yes. For eligible contracts.	Yes. Must be an "Eligible Contract Participant".	Yes. Orders can be bunched provided they are entered by a single controlling entity (ex:CTA).	Seller shall report the transaction within 5 min (15 min for Eurodollar).	None.	Fair Market Value. May not set off conditional orders (ex: stops).
Eurex	- Futures & Options on Futures - Options	Yes. For eligible contracts.	Yes, in writing.	Yes.	Buyer enters the trade and seller confirms.	None.	-Futures: price between day high/low up to the time of entry of the Block trade (except for futures on stock indices maximum deviation of 0.2% of the day high/low is permitted).  -Options : interval determined by the day high/low price of the respective underlying instrument up to the the time of entry of the Block trade. The determined interval is then extended by 50% of the maximum market maker quote spread permissible for the respective products.
E-CBOT	- Futures & Options on Futures	Yes. For eligible contracts.	Yes. Must be an "Eligible Contract Participant".	Yes.	Seller's clearing firm must submit the information to the exchange within 5 min.	None.	Fair and reasonable. May not set off conditional orders (ex: stops).
Sydney Futures Exchange (SFE)	- Futures & Options on Futures	Yes. For eligible contracts.	Yes, in writing.	Yes. Can't aggregate orders to meet min. volume.	The Initiating Participant must advise the Exchange within 5 min.	None.	May not vary significantly from the price of the underlying.
Eurex us	- Futures & Options on Futures	Yes. For eligible contracts.	Yes. Must be an "Eligible Contract Participant".	Yes. Can't aggregate orders to meet min. volume.	Buyer shall immediately upon agreement enter the trade on screen, seller has 15 min. to confirm.	None.	Member must inform counter party(ies) that the Block price is not the prevailing market price. <u>Futures</u> price must not exceed the day high/low by more than the prescribed values per selected product. <u>Options</u> price must not be more than one half the maximum applicable quote spread outside the range of the day high/low.
CBOE	- Options	Yes. For eligible contracts	N/A	Yes. Can't aggregate orders to meet min. volume.	Seller's clearing firm must submit the information to the exchange within 5 min.	None.	N/A
CFE	- Futures	Yes. For eligible contracts.	Yes. Must be an "Eligible Contract Participant".	N/A	Seller's clearing firm must submit the information to the exchange within 5 min.	None.	N/A
BOX	- Options	N/A	N/A	N/A	N/A	N/A	N/A
ISE	- Options	Yes. Must give the market makers an opportunity to participate.	N/A	Yes, 50 contracts.	None.	30 sec (block) 10 sec (facilitating.)	Between best bid and best offer.
ME (Proposal)	- Futures & Options on Futures - Options	N/A	N/A	N/A	N/A	N/A	N/A