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CIRCULAR 090-16
June 29, 2016

REQUEST FOR COMMENTS

TRADE PRACTICES

AMENDMENTS TO ARTICLES 5002 AND 6652 OF THE RULES OF BOURSE DE MONTREAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) approved amendments to articles 5002 and 6652 of the Rules of the Bourse and the Special Committee of the Regulatory Division of the Bourse approved amendments to article 6652 in order to clarify the Rules and align the Rules with other exchanges’ practices.

Comments on the proposed amendments must be submitted at the latest on **September 2, 2016**. Please submit your comments to:

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

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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

For your information, you will find in the appendices an analysis of the proposed amendments 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 determined by the *Derivatives Act* (CQLR, chapter I-14.01).

Process for Changes to the Rules

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

In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



TRADE PRACTICES

AMENDMENTS TO ARTICLES 5002 AND 6652 OF THE RULE OF BOURSE DE MONTREAL INC.

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I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) has undertaken a project to update and modernize its Rules. This project seeks to review the structure of the Rules, unify procedures into the Rules, remove outdated articles, align the Rules with current practices, and recommend substantive amendments as appropriate to adapt the Rules to the evolution of the market. The Bourse has identified a number of amendments which are intended either to update the Rules, align the Rules with current practices or to implement best practices. The proposed amendments are based on benchmarking with the rules and practices of other exchanges. In addition, the Bourse has sought preliminary and informal comments from industry stakeholders before drafting the proposed amendments.

II. ANALYSIS

a. Background

The initial step of this project was to create an internal Working Group to discuss and issue recommendations on the scope of the project and to identify particular articles that needed to be amended or modernized. In the course of its deliberations, the Working Group identified a number of articles and issues to be addressed. This document discusses amendments relating to Trade Practices. Each of the proposed amendments is analyzed separately below, with additional detail included in the Appendixes.

b. Description and Analysis of Market Impacts

Article 5002 (Montreal Local Time)

The proposed amendments update the requirements for clock synchronization in order to promote uniformity to the market. The Bourse is recommending adopting a rule that aligns with IIROC’s requirements.

Article 6652 (Exercise Limits)

The proposed amendments will clarify exercise limits by explicitly limiting exemptions to highly unusual circumstances, explicitly requiring prior written approval of the Bourse and making clear that position limits exemptions also apply to exercise limits.

c. Comparative Analysis

Please see Appendix 1 which provides further details on other exchange’s practices and the benchmarking made by the Bourse.

d. Proposed Amendments

Please see Appendix 2 for the proposed amendments to the aforementioned articles.

III. AMENDMENT PROCESS

The Bourse undertook this project to align its Rules with international best practices and provide its clients with more certainty with regard to its regulations. Prior to undertaking these amendments, the Bourse consulted informally with market participants' associations to receive their preliminary comments on the proposed amendments.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

None of the proposed amendments has an impact on the technological systems of the Bourse or those of its approved participants, except for:

- Article 5002: Clock synchronization may require changes for the Bourse or the approved participants. The implementation of such requirement will be coordinated with the implementation of the similar requirement by IIROC.

V. OBJECTIVES OF THE PROPOSED ADMENDMENTS

The proposed amendments seek to:

- Provide greater clarity for market participants;
- Align the Rules with current Bourse practices;
- Align the Rules with other exchanges' practices as appropriate; and
- Modernize the language of the Rules.

In striving to achieve these goals, the work of the Regulatory Division in enforcing current exchange rules was considered. Providing greater clarity as to trading requirements and ensuring that the Rules are in alignment with market practice also assists the Regulatory Division in its mission.

VI. PUBLIC INTEREST

It is in the public interest that the Rules of the Bourse be clear and provide certainty to market participants regarding its application. The proposed amendments aim at making the Rules more transparent and ensuring there is no ambiguity in the application thereof. These amendments, clarifications and updates should also assist in the enforcement of the Rules. Other amendments are intended to bring market practice in alignment with international best practices. This should create greater uniformity of practice for market participants, increasing the commercial utility of certain trading mechanisms and assisting in their compliance efforts.

VII. EFFICIENCY

The proposed amendments will enhance market efficiency by clarifying the Rules and removing uncertainty as to the acceptability of various practices.

VIII. PROCESS

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

IX. ATTACHED DOCUMENTS

- Appendix 1: Recommendations and benchmarking;
- Appendix 2: Proposed amendments.

MX RULE ANALYSIS, BENCHMARK REVIEW AND RECOMMENDATION

Category 2 – Trade Practices

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
<p>5002</p> <p>Bourse should establish a rule on the matter of clock synchronization.</p>	<p>No requirement that APs synchronize with MX or atomic clock. Should there be?</p>	<p>5002 Montréal Local Time (15.03.05)</p> <p>The Bourse shall conform to local Montréal time.</p>	<p>In order to promote uniformity to the market, we recommend to adopt a rule that aligns with IIROC’s requirements.</p> <p>IIROC Guidance Note on February 4, 1016 requires participants and marketplaces to use Coordinated Universal Time (“UTC”) administered and offered by the National Research Council (“NRC”) or any other recognized contributor to UTC, as the common reference time for synchronization purposes. Participants and marketplaces must ensure that system clocks do not drift more than +/- 50 milliseconds from UTC. Participants and marketplaces must ensure that system clocks are continually synchronized during trading hours. Manual clocks must be synchronized at least once daily, preferably prior to the opening of trading.</p>	<p>CME:</p> <ul style="list-style-type: none"> - STP Notice 06/24/15 - Network Time Protocol Guidelines <p>CBOE:</p> <ul style="list-style-type: none"> - Circular RG13-140 - Circular RG11-165 <p>NYSE Arca:</p> <ul style="list-style-type: none"> - Rule 6.20 <p>SEC:</p> <ul style="list-style-type: none"> - Regulation 242.613 <p>FINRA:</p> <ul style="list-style-type: none"> - Rule 7430 - OATS Clock Synchronization FAQ <p>IIROC:</p> <ul style="list-style-type: none"> - Proposed Guidance 15-0234 - IIROC Guidance note 16-0022 - UMIR 10.14

¹ If not included in the table, the full text of each relevant current rule is set forth at the bottom of the respective table.

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
				<ul style="list-style-type: none"> - Guidance- Time Synchronization (04/11/08)
<p>6652 Exercise Limits.</p>	<p>A discrepancy exists between MX and CBOE interpretation of Exercise Limits.</p>	<p>6652 Exercise Limits (10.11.92)</p> <p>Except with the written permission of the Exchange, no member or restricted permit holder shall exercise, for any account in which he has an interest or for the account of any client, a long position in any option where such member, client or restricted permit holder, acting alone or in concert with others, directly or indirectly, has or will have exercised, within any five (5) consecutive business days an aggregate long position exceeding the number of contracts established as position limits by article 6651.</p>	<p>We recommend to align the language of this rule to the CBOE, PHLX, and FINRA rules to remove any interpretive ambiguity by (a) explicitly limiting exemptions to “highly unusual circumstances” (FINRA and PHLX, but not CBOE); (b) explicitly requiring prior written approval; and (c) making clear that position limits exemptions also apply to exercise limits.</p>	<p>CBOE:</p> <ul style="list-style-type: none"> - Rule 4.12, 24.5 <p>PHLX:</p> <ul style="list-style-type: none"> - Rule 1002 <p>FINRA:</p> <ul style="list-style-type: none"> - Rule 2360(b)(4) - Rule 2359(b)

5002 Montréal Local Time

(15.03.05, 00.00.00)

The Bourse shall conform to the Local Montreal time as set by Canada's official timescale UTC(NRC), administered and offered by the National Research Council ("NRC") or administered and offered by any other recognized contributor to UTC. Approved Participants shall synchronize their time, using UTC(NRC) as the common reference time. System (computer-based) clocks shall be continually synchronized during trading hours to within 50 milliseconds of UTC(NRC). Manual (mechanical) clocks shall be synchronized at least once per day, prior to the opening of trading. Approved Participants that rely on third-party systems shall ensure such systems comply with the requirements of this article.

5002 Montréal Local Time

(15.03.05, 00.00.00)

The Bourse shall conform to the local Montreal time as set by Canada's official timescale UTC(NRC), administered and offered by the National Research Council ("NRC") or administered and offered by any other recognized contributor to UTC. Approved Participants shall synchronize their time, using UTC(NRC) as the common reference time. System (computer-based) clocks shall be continually synchronized during trading hours to within 50 milliseconds of UTC(NRC). Manual (mechanical) clocks shall be synchronized at least once per day, prior to the opening of trading. Approved Participants that rely on third-party systems shall ensure such systems comply with the requirements of this article.

6652 Exercise Limits

(10.11.92, 00.00.00)

A) Except in highly unusual circumstances and with the prior written permission of the Exchange, no member or restricted permit holder shall exercise, for any account in which he has an interest or for the account of any client, a long position in any option where such ~~member~~ Approved Participant or, client ~~or restricted permit holder~~, acting alone or in concert with others, directly or indirectly, has or will have exercised, within any five (5) consecutive business days an aggregate long position exceeding the number of contracts established as position limits by article 6651.

B) With respect to an option contract for which an exemption has been granted in accordance with article 6651, the exercise limit shall be equal to the amount of the exemption.

6652 Exercise Limits

(10.11.92, 00.00.00)

A) Except in highly unusual circumstances and with the prior written permission of the Exchange, no member or restricted permit holder shall exercise, for any account in which he has an interest or for the account of any client, a long position in any option where such Approved Participant or client, acting alone or in concert with others, directly or indirectly, has or will have exercised, within any five (5) consecutive business days an aggregate long position exceeding the number of contracts established as position limits by article 6651.

B) With respect to an option contract for which an exemption has been granted in accordance with article 6651, the exercise limit shall be equal to the amount of the exemption.