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

CIRCULAR
July 8, 2009

REQUEST FOR COMMENTS

ADDITION OF S&P/TSX INDEX FUTURES CONTRACTS, OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES (OBX) AND OPTIONS ON TEN-YEAR GOVERNMENT OF CANADA BOND FUTURES (OGB) IN THE EARLY TRADING SESSION

ADDITION OF ARTICLE 6393A TO RULE SIX OF BOURSE DE MONTRÉAL INC.

AND

MODIFICATIONS TO THE PROCEDURES FOR THE CANCELLATION OF TRADES

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved modifications to Rule Six of the Bourse's Rules as well as corresponding amendments to the relevant procedures. These modifications will allow for the addition of S&P/TSX Index futures contracts, options on Three-month Canadian Bankers' Acceptance futures (OBX) and options on Ten-year Government of Canada Bond futures (OGB) in the early trading session. The Bourse intends to add these contracts in the early trading session in the month of September 2009.

Comments on the implementation of the proposed additions must be submitted within 30 days following the date of publication of the present, at the latest on **August 7, 2009**. Please submit your comments to:

Mr. François Gilbert
Vice-President, Legal Affairs (Derivatives)
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca

Circular no.: 111-2009

A copy of these comments shall also be forwarded to the Autorité to:

Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Appendices

For your information, you will find in appendices an analysis document of the proposed additions, the proposed regulatory text as well as the amended procedures. The implementation date of the proposed additions will be determined by the Bourse, in accordance with the self-certification process as established in the Derivatives Act (R.S.Q., chapter I-14.01).

Process for Changes to the Rules

Bourse de Montréal Inc. is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (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 its Rules. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as established in the Derivatives Act (R.S.Q., 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, among which, the Rules relating to margin and capital requirements. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules with recommendation from the Special Committee. These changes are submitted to the Autorité for approval.

ADDITION OF S&P/TSX INDEX FUTURES CONTRACTS, OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES (OBX) AND OPTIONS ON TEN-YEAR GOVERNMENT OF CANADA BOND FUTURES (OGB) IN THE EARLY TRADING SESSION

ADDITION OF ARTICLE 6393A TO RULE SIX OF BOURSE DE MONTRÉAL INC.

AND

MODIFICATIONS TO THE PROCEDURES FOR THE CANCELLATION OF TRADES

I. OVERVIEW

A -- Proposed Regulatory Amendments

Bourse de Montréal Inc. (the Bourse) proposes to add article 6393A to Rule Six in order to establish a range of trading price limit for the trading sessions during which the underlying exchange-traded products are not open for trading.

In addition, the Bourse proposes amending the following procedure:

- Procedures for the Cancellation of Trades (Cancellation Procedure)

All these amendments to the Rules and procedures will facilitate the addition and trading of futures contracts on the S&P/TSX index products during the early session. The Bourse intends to include the following futures contracts and options on futures contracts in the early session: SXF, SXA, SXB, SXY, SXH, SCF, OBX and OGB effective at the end of the third quarter of 2009.

B -- Rationale

Currently, only fixed income futures are available for trading during the early session: from 6:00 a.m. to 7:45 a.m. for the short term interest rate futures and from 6:00 a.m. to 8:05 a.m. for the bond futures. The proposed modifications will include the remaining fixed income derivatives. The OBX (Options on Three-Month Canadian Bankers' Acceptance Futures) and the OGB (Options on Ten-Year Government of Canada Bond Futures) will complement the array of fixed income products available during the early hours of trading.

Currently no index futures contracts are available for trading during the early session. The proposed modifications will include all the S&P/TSX index futures contracts (SXF, SXA, SXB, SXY, SXH and SCF) in the early session (from 6:00 a.m. to 9:15 a.m.).

Several factors support the rationale for making all the aforementioned products available for trading in the early session:

- **Investor Interest:** Investor interest from multiple time zones is growing steadily for Canadian products. Extending the trading hours of the index products as well as the options on fixed income futures will provide end-users with the possibility to gain Canadian market exposure during the early hours. This investor interest comes mainly from the foreign market segments (particularly European) that are active during those particular trading hours.

- **Extended product coverage:** Adding these products in the early session along with the already existing fixed income products will extend the array of available Canadian instruments to domestic as well as international portfolio managers.

- **Trading Opportunities:** As other comparable international products are available for trading during these early hours, opening the access for end-users to the Canadian instruments will create an additional pool of liquidity for portfolio managers allowing for additional trading opportunities during an extended intra-day time frame.

II. DETAILED ANALYSIS

Comparison with International Markets

Contrary to the Bourse's stock index futures contracts, other comparable international exchange-traded stock index derivatives contracts are available for trading during early hours (overnight trading hours), thus placing the Bourse's stock index products at a competitive disadvantage versus its peers. Because Canadian exchange traded index derivatives are not available for trading during early hours, end users wishing to gain exposure to the Canadian market using index products (specifically, stock index futures contracts) have no other choices but to use substitute products (that are reasonably correlated to Canadian indices) that are available for trading on competing exchanges. However, this replication strategy exposes portfolio managers to substantial risk; specifically, tracking error risk between two indices as well as exchange rate risk. Thus, there is a need to make the Bourse's Canadian exchange traded index derivatives contracts available during the early session to facilitate portfolio management strategies and to continue attracting international market participants who wish to gain exposure to the Canadian market.

The following table summarizes the availability for trading of similar international index instruments. As may be observed, the S&P500 and DJIA index futures contracts are available for trading on the CME for a period of 23 hours out of 24 (for pit and Globex electronic trading sessions combined). The e-Mini S&P500, e-Mini Dow and Big Dow are available for trading on the CME's Globex electronic trading for a period of 23 hours 15 minutes out of 24. As for the FTSE 100 index futures contract, it is available for trading on the NYSE Euronext (LIFFE) electronic trading platform for a period of 13 hours out of 24. In comparison, currently the Bourse's index futures contracts are available for trading during a period of only 6 hours and 45 minutes out of 24. With the proposed modifications, the Bourse is seeking to extend that trading period to a total of 10 hours per day.

INTERNATIONAL BENCHMARKING:
CURRENTLY AVAILABLE TRADING HOURS

PRODUCTS	MONTRÉAL EXCHANGE (Eastern Time)	CME (Central Time)	NYSE Euronext (LIFFE) (GM Time)
All S&P/TSX index futures contracts	*MON-FRI: 9:30 a.m.-4:15 p.m.*	*N/A*	*N/A*
S&P 500 **DJIA** **NASDAQ 100**	*N/A*	***Pit:** MON-FRI: 8:30 a.m.-3:15 p.m.* ***Globex:*** *MON-THURS: 3:30 p.m.-8:15 a.m.* *(Daily maintenance shutdown: 4:30 p.m.-5:00 p.m.)* *SUN: 5:00 p.m.-8:15 a.m.*	*N/A*
e-Mini S&P 500 **e-Mini Dow** **Big Dow**	*N/A*	***Globex:** MON-THURS: 5:00 p.m.-3:15 p.m. & 3:30 p.m.-4:30 p.m.* *(Daily maintenance shutdown: 4:30 p.m.-5:00 p.m.)* *SUN: 5:00 p.m.-3:15 p.m.*	*N/A*
FTSE 100	*N/D*	*N/D*	*MON-FRI: 8:00 a.m. – 9:00 p.m.*

Source: CME and NYSE Euronext (LIFFE) Web sites / MX Research & Development

Price limits (trading range):

During the less active overnight trading hours, the CME allows trading of its stock index products within pre-established price limits and bands that are determined on a quarterly basis. The CME overnight session has a price limit band of – 5% to + 5% within which trading is allowed.

III. SUMMARY OF THE PROPOSED AMENDMENTS

The current Rules and procedures of the Bourse allow trading of the instruments during trading hours as determined by the Bourse. Thus, the proposed modifications to the Rules of the Bourse or to its procedures are not necessary to allow for the trading of the S&P/TSX index futures contracts or the options on fixed income futures contracts (OBX and OGB) during the early session.

However, for operational purposes, the Bourse proposes to add article 6393A to Rule Six and to amend the Procedures for the Cancellation of Trades in order to allow the establishment of a trading range for the S&P/TSX index futures contracts during the early trading session.

Article 6393A of Rule Six

The Bourse proposes to add article 6393A to Rule Six in order to allow the establishment of a trading price limit (a daily intra-session trading range) for the trading sessions during which the underlying exchange traded products are not open for trading (as is the case for the index futures contracts). The trading range level will be established by the Bourse and will be determined in the contract specifications of the concerned instruments (as will the session during which such a range will be applied)

Procedures for the Cancellation of Trades

The Bourse proposes to modify the Procedures for the Cancellation of Trades in order to establish that erroneous trades will not be adjusted to any level by the Market Operations department of the Bourse throughout the trading session during which the underlying exchange-traded products are not open for trading (as is the case currently during the early hours for the index futures contracts). Without the underlying market open for trading, there will not be sufficient market information available to establish the acceptable market price required to establish the No Cancel Range. As such, during that session all trades will be allowed within a pre-established trading range of – 5% to + 5% (based on previous day's settlement). All erroneous trades will stand unless mutually agreed upon by the parties involved to cancel the erroneous trade, in which case the Market Operations department of the Bourse will cancel such trade.

The practice of establishing the 5% limit range (up and down) reflects the level as applied by the CME during its Extended Trading Hours (overnight hours) for their index products. One distinction exists between the CME practice and the methodology proposed by the Bourse: the CME establishes the range on a quarterly basis whereas the Bourse will apply a more interactive daily method to most accurately reflect the volatility of the constantly changing market conditions.

IV. OBJECTIVE OF THE PROPOSED AMENDMENTS AND CONSEQUENCES

A -- Objectives

The objectives of the proposed amendments to Rule Six and to the related Procedures of the Bourse are to:

i) Establish the trading range for the sessions during which the underlying instruments are not open for trading.

ii) Clarify the limitation of the Procedures for the Cancellation of Trades, whereby erroneous trades will not be adjusted by the Market Operations department of the

Bourse in the sessions during which the underlying instruments are not open for trading

B -- Consequence of the proposed modifications

The proposed amendments will allow the Bourse to establish the required trading range in order to include the index futures contracts in the early trading session.

C -- Public interest

The amendments to Rule Six and the related Procedures are proposed in order to make the Bourse's index futures contracts group of products available for trading to market participants (from multiple time zones) who have expressed their interest and need for such contracts during those hours of trading for the purpose of their trading or portfolio management strategies.

The fact that the underlying instruments are not open for trading during those early hours will not penalize the end users who will now have an alternate pool of derivative instruments allowing them to gain Canadian market exposure.

D -- Documents attached

- Rule Six: addition of article 6393A
- Procedures for the Cancellation of Trades

V. PROCESS

The proposed amendments to Rule Six and to the Procedures for the Cancellation of Trades have been approved by the Rules and Policies Committee of the Bourse and are transmitted to the Autorité des marchés financiers (AMF) for self-certification purposes and will be published for a 30-day comment period. These modifications will also be transmitted to the Ontario Securities Commission (OSC) for information.

VI. SOURCES

- CME Group Website: http://www.cmegroup.com/
- NYSE Euronext Website: http://www.euronext.com/landing/liffeLanding-12601-EN.html

6393 Trading Price Limits
(25.09.00, 24.09.01, 29.10.01)

In order to minimize errors of the approved participant during order entry in the electronic trading system, trading price limits are in place for each instrument. This will protect the approved participant from entering a wrong price, which could move the market dramatically.

The approved participant who has placed an order which is not in the trading price limits, will receive a specific message that his order has been rejected.

The trading price limits will be set at the start of trading based on the previous day's settlement price (plus or minus). These limits will be adjusted by the Market Supervisor of the Bourse during the trading day, based on the movement of the market. The Bourse will be responsible to make sure the limits will not affect trading in any way. The new limits will be broadcasted to the market. Once the trading price limit has reached the daily price limits, the daily price limits are effective.

The Bourse will advise the approved participants of any change to the spread of the trading price limits.

6393A Other Trading Price Limits
(00.00.00)

A range of trading price limits (up and down) will also be established in trading sessions during which the underlying exchange-traded products are not open for trading. Such a trading range will be established by the Bourse based on the previous day's settlement price at the beginning of that particular trading session and will not be readjusted intra-session.

PROCEDURES FOR THE CANCELLATION 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 a vice-president or a senior vice-president of 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. PROCEDURES' LIMITATION

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.

In the event of erroneous trades during such trading sessions, the Market Operations department of the Bourse will not establish a No Cancel Range. As a result, such trades will not be adjusted by the Market Operations department of the Bourse and will stand at the traded price level unless both parties consent to cancel the erroneous trade. In such case the trade will be cancelled by the Market Operations department of the Bourse.

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

~~4.~~5. DESCRIPTION

~~4~~5.1~~.~~ DETECTION AND DELAYS

Market participants have the responsibility to identify without delay erroneous trades. As soon as an erroneous transaction resulting from an entry error is identified, the approved participant must advise a Market Supervisor of the Bourse by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366. A Market Supervisor will then contact the counterparties to the trade in order to reach an agreement within the 15 minutes that follow the execution of the transaction as prescribed by article 6381 of the Rules of the Bourse.

~~4~~5.2~~.~~ IMPLIED SPREAD 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.

A spread trade resulting from an implied spread order is in reality constituted from each of the individual legs regular outright orders. For the purpose of this procedure, an erroneous trade occurring on an implied spread order will be treated as if the spread trade was executed using regular posted orders of each individual leg separately.

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an erroneous spread trade resulting from an implied spread order will be at least the increment on one of the individual legs (5 basis points) and at the most, the sum of each individual legs' increments (10 basis points).

~~4~~5.3~~.~~ VALIDATION – NO CANCEL RANGE

In order to maintain market integrity, when a transaction outside the No Cancel Range is identified by Market Supervisors, the parties involved will be contacted within a reasonable delay by the Market Operations Department of the Bourse in order to adjust the trade price within the No Cancel Range.

When any potential erroneous trade is brought to the attention of a Market Supervisor by a market participant, the Market Supervisor will determine whether the trade price is in the No Cancel Range for the particular derivative instrument.

The No Cancel Range is defined as the price interval within which a trade cannot be cancelled. 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 was 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 SPREADS: - Regular spread orders - Implied spread orders	 5 basis points 5 to 10 basis points; sum of the spread's individual legs' increments.
Options on Three-Month Canadian Banker's Acceptance Futures – OBX	5 basis points
Government of Canada Bonds Futures	20 basis points
Options on Governement of Canada Bonds Futures	20 basis points
Futures Contracts on S&P/TSX Indices	1% of the acceptable market price of these futures contracts
Options on S&P/TSX Indices First three serial months	0.5 index point
Options on S&P/TSX Indices Next two quarterly months	1 index point
EQUITY 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
SPONSORED OPTIONS PRICE RANGES: $0.001 to $0.99 $1.00 up	 $0.25 $0.50
SINGLE STOCK FUTURES	$2.00

~~4~~5.4~~.~~ TRADE PRICE INSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the reported erroneous trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless the counterparty to the erroneous trade has agreed to cancel it.

Erroneous transactions, for which there has been consent between the parties to cancel, may be cancelled within the trading session (early, regular or extended) during which they have occurred.

~~4~~5.5~~.~~ TRADE PRICE OUTSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the erroneous trade is outside the No Cancel Range, then all parties involved in the transaction will be contacted and advised of the situation.

The transaction will be cancelled if all parties involved are in agreement.

The transaction will not be cancelled if one of the parties involved refuses. The residual trades (the ones not cancelled) will be readjusted to the limit of the No Cancel Range. In such a case, if the transaction involved a linked implied order, the initiator of the original error trade will take responsibility for the outcome. The error initiator may therefore have to take ownership of market positions for the directly resulting trades in the other linked contracts.

The Market Operations Department of the Bourse will adjust erroneous transactions in the best possible way. The main objective when adjusting erroneous trades is to minimize the impact for all market participants involved in the erroneous transaction and more particularly those who had a regular order in the order book.

~~4~~5.6~~.~~ OTHER SITUATIONS JUSTIFYING THE CANCELLATION OF TRANSACTIONS

The Market Operations Department of the Bourse will review all circumstances surrounding a transaction 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 could have to cancel trades resulting from such executions.

~~4~~5.7~~.~~ MULTIPLE MARKET MAKER TRANSACTIONS ON EQUITY, INDEX AND BOND OPTIONS

A Market Supervisor may also cancel transactions under the following conditions:

1. Multiple consecutive transactions can be cancelled if they consist of four (4) or more transactions against one market maker provided that:

    - all transactions were executed within a one (1) second interval;

    - the opposite side of the transactions consists of one or several market makers.

2. The market maker involved in the four (or more) transactions contacted a Market Supervisor at 514 871-7877 or 1-866-576-8836 within one (1) minute of the execution time of the multiple consecutive transactions, to request their cancellation.

~~4~~5.8~~.~~ DECISION

A decision to cancel or to refuse to cancel will be rendered by a Market Supervisor within 30 minutes following the cancellation request.

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 transaction 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 transaction can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.

Specifications

SCF - S&P/TSX Composite Index Mini Futures Contract

Underlying	The S&P/TSX Composite index is a capitalization-weighted index designed to measure the market activity of stocks listed on the Toronto Stock Exchange.
Trading Unit	C$5 times the level of the S&P/TSX Composite Index Mini futures contract.
Contract Months	March, June, September and December.
Price Quotation	Quoted in index points.
Price Fluctuation	5 index points for outright positions and 1 index point for calendar spreads
Last Trading Day	The trading day preceding the Final Settlement Day.
Final Settlement Day	The 3rd Friday of the contract month, providing it be a business day; if not, the 1st preceding business day.
Settlement	Cash settlement. The final settlement price is the Official Opening Level of the underlying index on the Final Settlement Day.
Reporting Level	1 000 contracts gross long or gross short in all contract months combined as specified in Rule Fifteen of the Bourse.
Position Limits	72 000 contracts as specified in Rule Fifteen of the Bourse.
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodic changes.
Price Limits / Trading Halt	A trading halt in the index futures contract will be invoked in conjunction with the triggering of "circuit breakers" in the underlying stocks.
Trading Hours	• Early session *: 6:00 a.m. to 9:15 a.m. • Regular session: 9:30 a.m. to 4:15 p.m. (Montreal Time) * Note: A trading range of – 5% to + 5% (based on previous day's settlement price) has been established only for this session.~~9:30 a.m. to 4:15 p.m. (Montreal Time)~~
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	SCF