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

CIRCULAR 115-15
September 23, 2015

REQUEST FOR COMMENTS

INTRODUCTION OF BLOCK TRADES PRICED AT A BASIS TO INDEX CLOSE ON S&P/TSX INDEX AND SECTOR INDEX FUTURES

AMENDMENTS TO ARTICLE 6380

AMENDMENTS TO THE PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved amendments to article 6380 of Rule Six of the Bourse and to the Procedures for the execution of block trades (the "**Procedures**"), in order to introduce Block trades priced at a basis to Index Close transactions for the benefit of the S&P/TSX index futures and sector index futures. This facility will support the entry of off-book trades on the index and sector index futures based on the combination of the next available underlying S&P/TSX index closing price, plus a basis.

Comments on the proposed amendments must be submitted within thirty (30) days following the date of publication of this notice, at the latest on October 23, 2015. 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 amendments proposed to article 6380 of Rule Six of the Bourse and to the Procedures. 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* (R.S.Q., 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* (R.S.Q., chapter I-14.01).

INTRODUCTION OF BLOCK TRADES PRICED AT A BASIS TO INDEX CLOSE ON S&P/TSX INDEX AND SECTOR INDEX FUTURES

AMENDMENTS TO ARTICLE 6380

AMENDEMENTS TO THE PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

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I. SUMMARY

The Bourse de Montréal inc. (the "Bourse") proposes to introduce **Block trades priced at a basis to Index Close** transactions ("BIC") for the benefit of the S&P/TSX index futures and sector index futures, namely: the S&P/TSX 60 Index Standard Futures (SXF), the S&P/TSX 60 Index Mini Futures (SXM), the S&P/TSX Composite Index Mini Futures (SCF) and the Sector Index Futures (SXA, SXB, SXH, SXK, SXU, SXY). Consequently, the Bourse proposes to amend article 6380 of the Bourse's Rules (the "Rules") as well as the Procedures for the Execution of Block Trades (the "Procedures").

A block trade is an off-exchange, privately negotiated, pre-arranged transaction that meets a pre-determined minimum quantity threshold set by the Bourse. Block trades must be executed at a fair and reasonable price compared to the size of the block, and compared to the price and size of other trades within the same market.

A Block trade priced at basis to Index Close is a type of off-exchange block transaction where the price negotiated is determined as a spread, or ***basis differential***, to the prospective closing level of the underlying index on that date. The price of a standard block trade is immediately established as an outright price, while BICs differ slightly from standard block trades in that the price is initially established at a basis differential to a prospective closing index price that will be known at a future time. BIC trades do not trade against orders in the central order book. A BIC trade is an order type that facilitates the execution of large orders relative to the underlying index level by explicitly binding the futures transaction price to the closing level of its index. So the trade is only executed when the final closing price of the index is published, thus determining the futures price.

II. ANALYSIS

a. Background

The Bourse aims to better serve institutional clients, portfolio managers and active trading desks by providing a cost-effective mechanism to efficiently transition between the equity (cash) and derivatives markets for portfolios that track the S&P/TSX indices. Accordingly, the Bourse would like to introduce BIC transactions on the S&P/TSX index futures and sector index futures product suite. This facility would support the entry of off-book trades on the index and sector index futures based on the combination of the next available underlying S&P/TSX index closing price, plus basis.

This trade facility is currently allowed under Rule 6380 6) for the FTSE Emerging Markets Index Futures contracts. The Bourse wishes to expand this consideration to include all index futures and sector index futures contracts. Institutional investors have a need for this order type to better manage risk. They want a future's price based on the net total return interpretation of the index as well as the price return interpretation. Price return indices are calculated using the price performance of its constituents disregarding the dividend payouts by companies. Conversely, total return indices include the dividends while calculating the index performance. Thus, the return coming from the total return index is comprised of the price index performance plus the performance due to dividends. Institutions need to manage this risk of the dividend associated with the index that is not established accurately when the future is priced. This ability to enter and exit the market with a fair and reasonable spread to the index minimizes these risks and the potential tracking error.

BIC trades allow a market participant to trade an index or sector index future during the course of the trading day at a price expressed as a basis differential to the closing price of the underlying stock index. A BIC price can be specified as a positive or a negative differential to the closing value of the underlying index, as a reference point. The basis differential, or simply basis or differential, is the difference between the futures price and the spot price. This trade occurs outside the central order book, based on a combination of the next available index closing price plus the previously established and agreed-upon basis. When the official closing level of the underlying index has been determined, at 4:00 pm ET, the price assigned to the futures will be submitted to the Bourse by the arranging participants. The price assigned to the futures is based on the closing level of the underlying index plus the block trade basis price reported to the Bourse's Market Operations Department. Institutional investors would use their fair value estimate to help determine what basis away from closing level they want to trade the futures contract. BICs would be permitted on all trading days up to but excluding the last trading day of an expiring contract month, as the futures and cash market converge, the basis approaches zero, and the closing level of the index determines the final settlement price of the futures.

b. Description and Analysis of Market Impacts

This trade tool would benefit participants who use index and sector index futures to manage cash flows, hedge market risk and create synthetic equity portfolios. There are a number of advantages for Portfolio Managers to construct synthetic equity portfolios, namely: transaction costs are lower for futures trading and the portfolio can preserve liquidity by maintaining a futures exchange margin requirement as opposed to the total dollar value of all the securities underlying the futures contract.

Hence, the Bourse wishes to introduce BIC trading in response to demands from institutional participants looking to:

- better manage the tracking risk of large trades versus the underlying index by tying the transaction price to the closing level of the index;
- convert portfolios from physical to futures without incurring slippage between settlement prices;
- minimize basis risk by guaranteeing the price of the index future;
- hedge more adeptly by using prices that parallel what they would receive on a basket of equity securities using a Market-on-Close (MOC) order, to guarantee end-of-day pricing.

BIC trades enhance flexibility in managing index exposure; benefitting investors with a cost-effective product that is both exchange-traded and centrally-cleared. Additionally, BIC trading allows customers to execute sizeable trades taking the official closing index price as a reference, as is the practice in the OTC derivatives market.

How a block trade priced at a basis to the index close (BIC) is executed

Step 1	Participants agree to execute a BIC. The price of the BIC (the futures price) will be the closing level of the index at the end of the trading day, plus an agreed upon basis.
Step 2	The arranging participants must contact the Market Operations Department within 15 minutes of pre-negotiating the BIC and submit the Block Trade Reporting Form, specifying the agreed upon basis and number of futures contracts. The basis is expressed in hundredths of an index point (except for the S&P/TSX Composite Index Mini Futures (SCF), whose basis is expressed in index points) where the executed futures price is the basis added to the official underlying index close. The price of the BIC (the futures price) can only be calculated at the end of the trading day, once the closing level of the index has been published.
Step 3	On the same trading day, the arranging participant submits a second block trade reporting form to the Bourse's Market Operations Department, after 4:00 p.m. ET. This second form must state the price of the BIC (the futures price) to the nearest 0.01 index point increment (except for the SCF, whose basis is expressed in index points) and then validated by the Bourse.

An example of a block trade priced at a basis to a closing index level:

On Monday at 1:00 pm (ET), two participants agree to trade a block of 100 S&P/TSX Index futures (SXF) at a basis of -0.60 to the end-of-day calculated closing index level. The block trade must be reported to the Bourse's Market Operations Department within 15 minutes of participants agreeing to the terms (the basis level and number of futures contracts) of the block trade.

The official S&P/TSX 60 Index closing level is available at 4:00 pm (ET) and is established at 896.80.

The final futures price of the block trade is established at 896.20 (896.80 - 0.60) for 100 SXF contracts.

Therefore, the BIC is executed when the final price of the BIC is determined. The final price of the BIC is determined using the index closing level for the S&P/TSX 60 Index plus the basis level at which the BIC was agreed upon by the participants. The basis and final price of the BIC must be fair and reasonable.

This initiative does not impact settlement procedures or pricing, other market participants or the retail client community.

The Bourse currently allows for Riskless Basis Cross (RBC) transactions, which can be described as a trade where an approved participant and a client engage in pre-negotiation discussions to agree upon the terms of a transaction on index futures contracts to take place outside the Bourse's electronic trading system. The trade must include the acquisition of a cash market position by the approved participant. The terms agreed upon also include the required amount of index exposure and the basis spread between the average price of the cash exposure acquired by the approved participant and the index futures contracts that will be crossed to the client.

The Bourse already permits the use of a riskless basis cross to trade index futures (SXF, SXM, SCF, SXK, SXU, SXA, SXB, SXH and SXY) provided that the approved participant's final position is riskless and does not impact the cash market. A long (short) position in the cash market will be offset by a short (long) position in the futures contract. The risk offsetting features of this transaction will transform the net position of the approved participant into the equivalent of a short-term money market instrument maturing at the futures contract expiry.

However, not all approved participants can execute an RBC; agency brokers never hold inventory. Thus, the Bourse aims to improve the efficiency of and expand the execution for the index and sector index futures wholesale facilities by adding the BIC transaction and providing additional advantages above and beyond the RBC. They may be compared in the following table:

Riskless basis cross (RBC) transactions vs. BIC transactions

	General uses	Components	Advantages	Disadvantages
RBC	▪ To allow market participants to use the attributes of the underlying cash market to take a position (for the client) and replicate it through the use of futures – leaving the approved participant with no position and the client with futures	▪ Client and broker agree on the basis that the client will pay above and beyond the cash market average price ▪ Client and broker agree on the time period during which the broker will acquire exposure to the index ▪ Client's final price for the futures contracts is the average price of the cash market plus the pre-negotiated basis	▪ No disruption or displacement of Exchange-traded markets	▪ Not all brokers can implement an RBC; agency brokers never have inventory ▪ Trading at month-end at the cash close may incur a price away from fair value
BIC	▪ To allow market participants to create synthetic equity portfolios, manage cash flows and hedge market risk Provides a cost-effective way to transition between the equity and	▪ The price of the BIC will be the closing price of the index at the end of the trading day plus an agreed-upon basis	▪ Converts portfolios from physical to futures without slippage between settlement prices ▪ Minimizes basis risk by guaranteeing the	

	derivatives markets for portfolios that track the S&P/TSX Indices		price of the index future ▪ Allows clients to execute sizeable trades taking the closing index price as a reference ▪ Benefits month-end adjustments and re-weightings; using BICs at month-end would support trading closer to fair value ▪ No disruption or displacement of Exchange-traded markets	

For those participants who would suggest that all orders should first attempt to sweep the book, it can be argued that the insufficient liquidity for these large size orders would disrupt the market and create basis risk for the executing clients. The BIC transaction eliminates this risk by guaranteeing the closing price of the underlying index.

An approved participant of the Bourse must execute a BIC for a volume equal to or greater than the applicable minimum volume threshold set forth in the Procedures. The Bourse must agree to the terms of the BIC agreement; so, if the details of the trade fail to comply with the Rules or Procedures, the Bourse reserves the right to cancel any transaction.

BICs must be reported to the Bourse within 15 minutes of the execution time, also in accordance with the Procedures. The execution time for a BIC is equal to the time at which the final price and quantity of futures contracts have been determined. In determining whether the price of a BIC has been reported within the allotted time frame, the Bourse will look to the time at which the closing index level was published. While the BICs may be traded in hundredths of an index point despite the fact that the minimum tick size on the outrights is in tenths of an index point (except for the SCF, whose basis is expressed in index points) both the basis and the final outright block trade price must be fair and reasonable taking into consideration, but without limitation to the following factors: financing rates, expected dividend income, time remaining until the index futures contract expiration, and any factors set forth in article 6380 4) v) of this Rule, as applicable.

c. Comparative analysis

There are several other exchanges that have successfully introduced this trading facility. Eurex offers the Trade at Index Close (TIC) which supports off-book trades in equity index futures based on a combination of the next available underlying index closing price plus basis. [1] The Intercontinental Exchange (ICE) also has a TIC functionality allowing participants to enter bids or offers for a stock index futures contract during the trading session at a price expressed as a differential (or basis) to the closing price of the underlying equity index. [2] CME Group permits market participants to execute index futures at a pre-negotiated basis between the futures market and the underlying cash index called the Basis Trade at Index Close (BTIC). [3] The Bourse, too, seeks to adopt this common practice and introduce the same trade facility as these exchanges.

Furthermore, NYSE LIFFE US has benefitted from the Block on Index Close (BIC) functionality introduced in 2011 on the mini MSCI index futures, contributing towards the significant growth in open interest in 2012. [4] This trading tool offers an "innovative way to provide customers the ability to manage the tracking impact of executing large orders relative to the underlying index level by explicitly tying the transaction price to the closing level of the underlying index."[5]

	Eurex	**ICE**	**CME**
Trade service	**TIC**	**TIC**	**BTIC**
Minimum quantity threshold	Minimum sizes must be at least 10 percent of the Block Trade size in place for the respective index futures contract.	Depending on the index, the minimum quantity is between 50-100 lots. Russell stock index futures are 20 contracts.	50 contracts
Reporting time limit	18:15 CET	A BIC trade must be reported to the Exchange within 15 minutes of the execution time (the time that the final price and quantity are determined).	Must be reported to the exchange within five (5) minutes of agreeing to terms of the BTIC block trade, and at least 10 minutes prior to the close of the spot market for that day.

1 http://www.eurexchange.com/exchange-en/products/eurex-trade-entry-services/trade-at-index-close/
2 https://www.theice.com/publicdocs/futures_us/TIC_FAQ.pdf
3 http://www.cmegroup.com/trading/equity-index/btic-block-trades.html
4 https://exchanges.nyx.com/fr/us-trading-news/msci-futures-2012-record-growth
5 http://www1.nyse.com/press/1334830092849.html

Tick size increment	Minimum tick size of the normal trade	BIC trades may be priced in hundredths an index point even though the minimum tick size in the central order book is a tenth of an index point.	Must have a basis or price increment stated in standard size ticks (minimum price increments for basis) of the contract. Note, however, that trades completed based on the closing index value will be cleared in increments of 0.01, as the underlying stock price index is reported to a two decimal place level of precision.

Sources: http://www.eurexclearing.com/blob/934224/35978c3e6af9080285c41b5f0bad456c/data/ec14059e.pdf
https://www.theice.com/publicdocs/futures_us/TIC_FAQ.pdf
https://www.theice.com/publicdocs/futures_us/exchange_notices/Block_Trade_FAQ.pdf
http://www.cmegroup.com/trading/equity-index/files/btic-block-trades.pdf

d. Proposed Amendments

The Bourse proposes to amend Article 6380 of the Rules to allow market participants the facility to execute futures at an agreed-upon basis by supporting BIC trades in the index futures and sector index futures: namely off-book trades based on the combination of the next available index closing price plus basis. Specifically, paragraph 6) of Article 6380 must be amended to allow for BICs to be executed on products determined by the Bourse generally, rather than on Futures contracts on the FTSE Emerging Markets Index specifically. Furthermore, the Procedures must be amended such that Table 2 includes a provision for the index futures and sector index futures contracts.

A minimum quantity threshold of 100 contracts is being proposed since any order quantity greater than 100 would be highly disruptive if executed in the open marketplace. The trade size is deemed disruptive when the market is unable to absorb such a quantity without an impact on pricing activity. Then, when this order results in execution at prices outside the established no-bust range, intervention is required by the Bourse in the form of cancellations and trade adjustments. Considering market conditions and liquidity do change, the Bourse intends to annually review and evaluate the BIC minimum quantity thresholds.

III. AMENDMENT PROCESS

This drafting process is supported by the Bourse's desire to conform to more common industry practices, by institutional participants who wish to minimize basis risk and slippage, and by brokers who cannot implement a Riskless Basis Cross.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed changes should have no impact on the technological systems of the Bourse, the Bourse's approved participants, or any other market participants.

V. OBJECTIVES OF THE PROPOSED ADMENDMENTS

The objective of the proposed amendments is to allow the market participants of the Bourse to benefit from a new trade facility; giving institutional investors the facility to create synthetic equity portfolios, manage cash flows and hedge market risk.

VI. PUBLIC INTEREST

BIC trades enhance flexibility in transitioning from cash to derivatives markets by benefitting investors with a cost-effective product that is both exchange-traded and centrally-cleared.

VII. EFFICIENCY

Introducing this new order type would increase market efficiency by facilitating large trade execution without disrupting the market, and virtually eliminating basis or execution risk to trade the futures tied to their underlying index.

VIII. PROCESS

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

IX. ATTACHED DOCUMENTS

Proposed Rules and Procedures amendments.

6380 Prenegotiation Discussions, Cross Transactions, Prearranged Transactions, Block Trades, Riskless Basis Cross Transactions and Block Trades Priced at a Basis to the Index Close
(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08, 29.01.10, 09.06.14, 00.00.00)

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

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, an exchange-for-physical or exchange-for-risk transaction (according to the provisions of article 6815 of this Rule), a substitution transaction (according to the provisions of article 6815A of this Rule) or a riskless basis cross 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) Cross 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.

3) 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.

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 volume equal to or greater than the minimum volume threshold established for that eligible security or derivative instrument;

iii) the prescribed time delay between the input of an order and its opposite side order is respected;

iv) 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 volume 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 volume functionality of the electronic trading system of the Bourse to execute a cross transaction or a prearranged transaction.

4) Block Trades

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 (as permitted by article 6005 of this Rule) at prices mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.

An approved participant of the Bourse may execute a block trade for a volume equal to or greater than the applicable minimum volume threshold in a security or derivative instrument, other than an equity option or a share futures contract, designated by the Bourse pursuant to the following conditions and those of article 6380 6) of this Rule, if applicable:

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 deemed "fair and reasonable" by the Bourse 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) Block trades shall not set off special terms orders or otherwise affect orders in the regular market.

vii) With the exception of futures contracts on the FTSE Emerging Markets Index, 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 volume thresholds are determined by the Bourse and published in the Procedures for the Execution of Block Trades.

5) Riskless Basis Cross Transactions

A riskless basis cross transaction occurs when an approved participant and a client engage in pre negotiation discussions to conclude a riskless basis cross transaction outside of the posted order book (as permitted by article 6005 of this Rule) at a pre-determined price. The futures contract price is comprised of an average price resulting from a preliminary transaction in the cash market plus a prenegotiated basis spread mutually agreed upon between the approved participant and the client.

A riskless basis cross transaction can be executed on the Bourse once the approved participant has acquired market exposure using cash instruments as prescribed in the procedures established by the Bourse.

In order to qualify as a riskless basis cross transaction, the following conditions must be respected:

i) Riskless basis cross transactions must at all times be executed in accordance with such other procedures, terms and conditions that the Bourse may prescribe from time to time.

ii) The futures contracts that are eligible to riskless basis cross transactions, and the last day and time for executing such transactions shall be determined by the Bourse.

iii) The cash components acceptable for the purpose of a riskless basis cross transaction are those specified in the procedures set by the Bourse.

iv) Each party to a riskless basis cross transaction must satisfy the Bourse, upon request, that the transaction is a bona fide transaction. To this effect, parties to such a transaction must maintain and must provide to the Bourse upon request complete records and documentary evidence relating to such transaction including all records relating to the purchase or sale of securities and futures contracts and to any transfer of positions made in connection with such transaction.

v) It is prohibited for any party to a riskless basis cross transaction to effect a transaction which is contrary to the requirements and practices prescribed by the rules, policies and procedures of the Bourse or to effect such a transaction for the sole purpose of reporting, registering or recording a price that is not a bona fide price or of making a transaction which is a "wash trade", an accommodation trade or a fictitious sale.

vi) A riskless basis cross transaction may be made at such prices that are mutually agreed upon by the two parties to this transaction. However, the price at which the futures contract leg of the transaction is arranged must be deemed fair and reasonable by the Bourse in light of factors such as, but not limited to, the size of the transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market as well as the general market conditions.

vii) Each riskless basis cross transaction must be reported to the Bourse in accordance with the procedures set by the Bourse. Such report must be in the form prescribed by the Bourse and must contain all the information required on such prescribed form.

viii) Each riskless basis cross transaction must be immediately disseminated by the Bourse once it has validated it.

ix) It is strictly prohibited for any party, for both the buyer and the seller, to enter into a riskless basis cross trade to circumvent the contract month roll in the corresponding security or derivative instrument.

6) Block Trades Priced at a Basis to the Index Close (BICs) ~~on FTSE Emerging Markets Index Futures Contracts~~

Block trade priced at a basis to the index close (BICs) are block trade transactions ~~on **FTSE Emerging Markets** Index Futures Contracts~~ on a security or derivative instrument designated by the Bourse that ~~which~~ are priced in reference to the closing price of the relevant underlying index and the basis as determined during prenegotiation discussions.

The futures price assigned to a BIC is based on ~~a prospective index price or on~~ the applicable closing price of the relevant index adjusted by a valid price increment (“basis”) that can be positive or negative.

The basis and final price of the BIC must be deemed fair and reasonable by the Bourse taking into consideration, but without limitation to the consideration of, the following factors: financing rates, expected dividend income, time remaining until the index futures contract expiration, and any factors set forth in article 6380 4) v) of this Rule, as applicable.

A BIC is considered having occurred when one or more approved participants and/or clients engage in prenegotiation discussions to arrange large size transactions, in accordance with the minimum volume thresholds determined by the Bourse, away from the electronic trading system of the Bourse (as set forth by article 6005 of this Rule) at a basis that has been mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.

While the basis to a prospective index price or the applicable closing price of the relevant index is established during prenegotiation discussions, the outright price for the transaction will only be established once the applicable closing price of the relevant underlying index has been established.

On all trading days up to but excluding the last trading day of an expiring contract month, an approved participant of the Bourse may execute a BIC for a volume equal to or greater than the applicable minimum volume threshold in a security or derivative instrument designated by the Bourse pursuant to the conditions set forth in article 6380 4) of this Rule.

6380 Prenegotiation Discussions, Cross Transactions, Prearranged Transactions, Block Trades, Riskless Basis Cross Transactions and Block Trades Priced at a Basis to the Index Close
(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08, 29.01.10, 09.06.14, 00.00.00)

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

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, an exchange-for-physical or exchange-for-risk transaction (according to the provisions of article 6815 of this Rule), a substitution transaction (according to the provisions of article 6815A of this Rule) or a riskless basis cross 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) Cross 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.

3) 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.

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 volume equal to or greater than the minimum volume threshold established for that eligible security or derivative instrument;

iii) the prescribed time delay between the input of an order and its opposite side order is respected;

iv) 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 volume 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 volume functionality of the electronic trading system of the Bourse to execute a cross transaction or a prearranged transaction.

4) Block Trades

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 (as permitted by article 6005 of this Rule) at prices mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.

An approved participant of the Bourse may execute a block trade for a volume equal to or greater than the applicable minimum volume threshold in a security or derivative instrument, other than an equity option or a share futures contract, designated by the Bourse pursuant to the following conditions and those of article 6380 6) of this Rule, if applicable:

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 deemed fair and reasonable by the Bourse 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) Block trades shall not set off special terms orders or otherwise affect orders in the regular market.

vii) With the exception of futures contracts on the FTSE Emerging Markets Index, 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 volume thresholds are determined by the Bourse and published in the Procedures for the Execution of Block Trades.

5) Riskless Basis Cross Transactions

A riskless basis cross transaction occurs when an approved participant and a client engage in pre negotiation discussions to conclude a riskless basis cross transaction outside of the posted order book (as permitted by article 6005 of this Rule) at a pre-determined price. The futures contract price is comprised of an average price resulting from a preliminary transaction in the cash market plus a prenegotiated basis spread mutually agreed upon between the approved participant and the client.

A riskless basis cross transaction can be executed on the Bourse once the approved participant has acquired market exposure using cash instruments as prescribed in the procedures established by the Bourse.

In order to qualify as a riskless basis cross transaction, the following conditions must be respected:

i) Riskless basis cross transactions must at all times be executed in accordance with such other procedures, terms and conditions that the Bourse may prescribe from time to time.

ii) The futures contracts that are eligible to riskless basis cross transactions, and the last day and time for executing such transactions shall be determined by the Bourse.

iii) The cash components acceptable for the purpose of a riskless basis cross transaction are those specified in the procedures set by the Bourse.

iv) Each party to a riskless basis cross transaction must satisfy the Bourse, upon request, that the transaction is a bona fide transaction. To this effect, parties to such a transaction must maintain and must provide to the Bourse upon request complete records and documentary evidence relating to such transaction including all records relating to the purchase or sale of securities and futures contracts and to any transfer of positions made in connection with such transaction.

v) It is prohibited for any party to a riskless basis cross transaction to effect a transaction which is contrary to the requirements and practices prescribed by the rules, policies and procedures of the Bourse or to effect such a transaction for the sole purpose of reporting, registering or recording a price that is not a bona fide price or of making a transaction which is a "wash trade", an accommodation trade or a fictitious sale.

vi) A riskless basis cross transaction may be made at such prices that are mutually agreed upon by the two parties to this transaction. However, the price at which the futures contract leg of the transaction is arranged must be deemed fair and reasonable by the Bourse in light of factors such as, but not limited to, the size of the transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market as well as the general market conditions.

vii) Each riskless basis cross transaction must be reported to the Bourse in accordance with the procedures set by the Bourse. Such report must be in the form prescribed by the Bourse and must contain all the information required on such prescribed form.

viii) Each riskless basis cross transaction must be immediately disseminated by the Bourse once it has validated it.

ix) It is strictly prohibited for any party, for both the buyer and the seller, to enter into a riskless basis cross trade to circumvent the contract month roll in the corresponding security or derivative instrument.

6) Block Trades Priced at a Basis to the Index Close (BICs)

Block trade priced at a basis to the index close (BICs) are block trade transactions on a security or derivative instrument designated by the Bourse that are priced in reference to the closing price of the relevant underlying index and the basis as determined during prenegotiation discussions.

The futures price assigned to a BIC is based on the applicable closing price of the relevant index adjusted by a valid price increment ("basis") that can be positive or negative.

The basis and final price of the BIC must be deemed fair and reasonable by the Bourse taking into consideration, but without limitation to the consideration of, the following factors: financing rates, expected dividend income, time remaining until the index futures contract expiration, and any factors set forth in article 6380 4) v) of this Rule, as applicable.

A BIC is considered having occurred when one or more approved participants and/or clients engage in prenegotiation discussions to arrange large size transactions, in accordance with the minimum volume thresholds determined by the Bourse, away from the electronic trading system of the Bourse (as set forth by article 6005 of this Rule) at a basis that has been mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.

While the basis to a prospective index price or the applicable closing price of the relevant index is established during prenegotiation discussions, the outright price for the transaction will only be established once the applicable closing price of the relevant underlying index has been established.

On all trading days up to but excluding the last trading day of an expiring contract month, an approved participant of the Bourse may execute a BIC for a volume equal to or greater than the applicable minimum volume threshold in a security or derivative instrument designated by the Bourse pursuant to the conditions set forth in article 6380 4) of this Rule.

PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

1. Block Trades

a) Once a block trade has been arranged, in accordance with the predetermined minimum volume 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 Operations 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 electronically submit the Block Trade Reporting Form, available on the Bourse's web site at http://www.m-x.ca/rob_formulaire_en.php, to the Bourse's Market Operations 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 and processed, the following information with respect to the block trade will be disseminated by the Bourse:

i) date and time of transaction;
ii) security(ies) or derivative instrument(s) and contract month(s);
iii) price of each contract month(s) and strike price(s) (as applicable); and
iv) volume of each contract month.

f) Upon the Bourse's request, the approved participant who arranges a block trade must provide satisfactory evidence that the block trade has been arranged in accordance with the Rules of the Bourse. Failure to provide satisfactory evidence of compliance with these Rules may result in the initiation of disciplinary action.

In accordance with article 6380 4) of the Rules of the Bourse~~ de Montréal Inc. (the "Bourse")~~, the following are the eligible securities and derivative instruments, the relevant prescribed time delays and the minimum volume thresholds for the execution of block trades.

Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments for the execution of block trades

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	PRESCRIBED TIME DELAY	MINIMUM VOLUME THRESHOLD
	(As soon as practicable and in any event within the following time delay)	
30-Day Overnight Repo Rate Futures Contracts (ONX)	15 minutes	1,000 contracts
Overnight Index Swap Futures Contracts (OIS)	15 minutes	200 contracts
Ten-Year Government of Canada Bond Futures Contracts (CGB)	15 minutes	1,500 contracts
Two-Year Government of Canada Bond Futures Contracts (CGZ)	15 minutes	500 contracts
30-Year Government of Canada Bond Futures Contracts (LGB)	15 minutes	500 contracts
Five-Year Government of Canada Bond Futures Contracts (CGF)	15 minutes	500 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	15 minutes	2,000 contracts
Canadian Crude Oil Futures Contracts	15 minutes	100 contracts
Futures contracts on the FTSE Emerging Markets Index	15 minutes	100 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies five through eight (BAX Reds)	15 minutes	1,000 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies nine through twelve (BAX Greens)	15 minutes	500 contracts

~~Table~~ 2. ~~:~~ Block trades priced at a basis to the index close (BIC) ~~on FTSE Emerging Markets Index Futures Contracts~~

a) Once a ~~block trade~~BIC has been arranged, in accordance with the predetermined minimum volume threshold level as determined and published by the Bourse, details of the ~~block trade~~BIC must be reported to the Bourse by contacting a market official of the Bourse's Market Operations Department at 1-888-693-6366 or at 514 871-7871 within the period of time prescribed by the Bourse. Approved participants for both the seller and buyer must subsequently complete and submit a Block Trade Reporting Form as stipulated above, specifying the agreed-upon basis in lieu of the price. The Bourse will disseminate the relevant information through its website at www.m-x.ca.

b) Approved participants for both the seller and buyer must also complete and submit a second Block Trade Reporting Form to the Bourse's Market Operations Department ~~after 9:30 p.m. GMT on the next trading day,~~ once the closing price of the relevant index has been published.

c) In addition to the agreed-upon basis, this second form must specify both the closing level of the index and the price of the BIC to the nearest 0.01 index point increment. The Bourse will disseminate the relevant information both through its website at www.m-x.ca and also through its High Speed Vendor Feed.

In accordance with article 6380 6) of the Rules of the Bourse, the following are the eligible securities and derivative instruments, the relevant prescribed time delays, the minimum volume thresholds and the second Block Trade Reporting Form filing requirements for the ~~execution of block trades priced at a basis to the index close (BIC)~~.

~~ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS~~	~~EXECUTION OF BLOCK TRADES PRICED AT A BASIS TO THE INDEX CLOSE (BICS)~~
~~Futures contracts on the FTSE Emerging Markets Index~~	~~Approved participants for both the seller and buyer must complete and submit a Block Trade Reporting Form as stipulated above, specifying the agreed-upon basis in lieu of the price. The Bourse will disseminate the relevant information through its website at www.m-x.ca.~~ ~~Approved participants for both the seller and buyer must also complete and submit a second block trade reporting form to the Bourse's Market Operations Department after 9:30 p.m. GMT on the next trading day, once the closing price of the index has been published.~~ ~~In addition to the agreed-upon basis, this second form must specify both the closing level of the index and the price of the BIC to the nearest 0.01 index point increment. The Bourse will disseminate the relevant information both through its website at www.m-x.ca and also through its High Speed Vendor Feed.~~

Table 2~~3~~: Prescribed time delays, ~~and~~ minimum volume thresholds and second Block Trade Reporting Form filing requirements for eligible securities and derivative instruments for the execution of block trades priced at a

basis to the index close (BIC) ~~**on FTSE Emerging Markets Index Futures Contracts**~~

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	**PRESCRIBED TIME DELAY**	**MINIMUM VOLUME THRESHOLD**	**FILING OF SECOND BLOCK TRADE REPORTING FORM**
	(As soon as practicable and in any event within the following time delay)		
Futures contracts on the FTSE Emerging Markets Index	15 minutes	100 contracts	After 9:30 p.m. GMT on the next trading day
Futures contracts on S&P/TSX indices and sectorial indices	15 minutes	100 contracts	After 4:00 p.m. ET on the same trading day

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PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

1. Block Trades

a) Once a block trade has been arranged, in accordance with the predetermined minimum volume 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 Operations 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 electronically submit the Block Trade Reporting Form, available on the Bourse's web site at http://www.m-x.ca/rob_formulaire_en.php, to the Bourse's Market Operations 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 and processed, the following information with respect to the block trade will be disseminated by the Bourse:

- i) date and time of transaction;
- ii) security(ies) or derivative instrument(s) and contract month(s);
- iii) price of each contract month(s) and strike price(s) (as applicable); and
- iv) volume of each contract month.

f) Upon the Bourse's request, the approved participant who arranges a block trade must provide satisfactory evidence that the block trade has been arranged in accordance with the Rules of the Bourse. Failure to provide satisfactory evidence of compliance with these Rules may result in the initiation of disciplinary action.

In accordance with article 6380 4) of the Rules of the Bourse, the following are the eligible securities and derivative instruments, the relevant prescribed time delays and the minimum volume thresholds for the execution of block trades.

Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments for the execution of block trades

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	PRESCRIBED TIME DELAY	MINIMUM VOLUME THRESHOLD
	(As soon as practicable and in any event within the following time delay)	
30-Day Overnight Repo Rate Futures Contracts (ONX)	15 minutes	1,000 contracts
Overnight Index Swap Futures Contracts (OIS)	15 minutes	200 contracts
Ten-Year Government of Canada Bond Futures Contracts (CGB)	15 minutes	1,500 contracts
Two-Year Government of Canada Bond Futures Contracts (CGZ)	15 minutes	500 contracts
30-Year Government of Canada Bond Futures Contracts (LGB)	15 minutes	500 contracts
Five-Year Government of Canada Bond Futures Contracts (CGF)	15 minutes	500 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	15 minutes	2,000 contracts
Canadian Crude Oil Futures Contracts	15 minutes	100 contracts
Futures contracts on the FTSE Emerging Markets Index	15 minutes	100 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies five through eight (BAX Reds)	15 minutes	1,000 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies nine through twelve (BAX Greens)	15 minutes	500 contracts

2. Block trades priced at a basis to the index close (BIC)

a) Once a BIC has been arranged, in accordance with the predetermined minimum volume threshold level as determined and published by the Bourse, details of the BIC must be reported to the Bourse by contacting a market official of the Bourse's Market Operations Department at 1-888-693-6366 or at 514 871-7871 within the period of time prescribed by the Bourse. Approved participants for both the seller and buyer must subsequently complete and submit a Block Trade Reporting Form as stipulated above, specifying the agreed-upon basis in lieu of the price. The Bourse will disseminate the relevant information through its website at www.m-x.ca.

b) Approved participants for both the seller and buyer must also complete and submit a second Block Trade Reporting Form to the Bourse's Market Operations Department once the closing price of the relevant index has been published.

c) In addition to the agreed-upon basis, this second form must specify both the closing level of the index and the price of the BIC to the nearest 0.01 index point increment. The Bourse will disseminate the relevant information both through its website at www.m-x.ca and also through its High Speed Vendor Feed.

In accordance with article 6380 6) of the Rules of the Bourse, the following are the eligible securities and derivative instruments, the relevant prescribed time delays, the minimum volume thresholds and the second Block Trade Reporting Form filing requirements for the BIC.

Table 2: Prescribed time delays, minimum volume thresholds and second Block Trade Reporting Form filing requirements for eligible securities and derivative instruments for the execution of block trades priced at a basis to the index close (BIC)

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	PRESCRIBED TIME DELAY	MINIMUM VOLUME THRESHOLD	FILING OF SECOND BLOCK TRADE REPORTING FORM
	(As soon as practicable and in any event within the following time delay)		
Futures contracts on the FTSE Emerging Markets Index	15 minutes	100 contracts	After 9:30 p.m. GMT on the next trading day
Futures contracts on S&P/TSX indices and sectorial indices	15 minutes	100 contracts	After 4:00 p.m. ET on the same trading day

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