CIRCULAR 133-23
November 9, 2023

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. IN ORDER TO INTRODUCE THE GUARANTEED CROSS AUCTION FUNCTIONALITY AND AUTOMATE CONTINGENT OPTION TRADES

On **October 30, 2023**, the Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse"**) approved amendments to the rules of the Bourse in order to introduce a new market order type within its trading environment.

Comments on the proposed amendments must be submitted at the latest on **December 9, 2023**. Please submit your comments to:

Dima Ghozaiel
Legal Counsel
Bourse de Montréal Inc.
1800-1190 av des Canadiens-de-Montréal
P.O. Box 37
Montreal, Quebec H3B 0G7
E-mail: legal@tmx.com

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

M[e] Philippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640 Laurier boulevard, suite 400
Québec (Québec) G1V 5C1
Fax : (514) 864-8381
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. Unless specified otherwise, comments will be published anonymously by the Bourse.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

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 by the Autorité. The Regulatory Division of the Bourse (the "Division") is responsible for the regulatory functions of the Bourse and carries on its activities as an independent unit separate from the other activities of the Bourse. The Division's activities are performed under the oversight of the Self-Regulatory Oversight Committee appointed by the Board of Directors of the Bourse. 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 of the Bourse. Responsibility for new rule proposals or amendments to rules pertaining to market integrity is vested with the Division. The proposals and amendments are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

AMENDMENTS THE RULES OF BOURSE DE MONTREAL INC. TO INTRODUCE THE GUARANTEED CROSS AUCTION FUNCTIONALITY AND AUTOMATE CONTINGENT OPTION TRADES

Description

The Bourse de Montréal Inc. (the "Bourse") intends to introduce a guaranteed cross auction functionality (the "Guaranteed Cross Auction") for equity and ETF options crosses and the automation of contingent option trades (the "Amendments"). Our proposed Auction mechanism will differ from the current option crossing procedure by allowing market participants to compete to improve the execution price of a liquidity seeker. This mechanism, introduced several years ago in different shape or form in the US option market, will provide several benefits to the Canadian derivatives ecosystem. These benefits include the opportunity of improving the execution price and increasing interactions in the central limit order book which is expected to lead to better on-screen market quality and liquidity. With the introduction of the Guaranteed Cross Auction, the Bourse proposes the amendment to the Rules as defined further below. .

The Guaranteed Cross Auction mechanism will apply to all naked options transactions as well as options to options strategies or contingent option trades. A contingent option trade is the trade of securities on the Toronto Stock Exchange (TSX), that are underlying an option traded on the Bourse. Contingent option trades play a pivotal role in the strategic operations of many market participants, and had to be included in the Auction mechanism. In order to do so, the Bourse had to automate the applicable procedures as currently, contingent option trades are executed manually by the Market Operations Department. The automation is achieved via the introduction of a functionality called "Covered with Stocks". The automation requires an amendment to the TSX rules, as well as an amendment to the rules of the Bourse (the "Rules").

In order to implement the Guaranteed Cross Auction and the automation of contingent option trades, the Bourse hereby proposes the following amendments:

Outline of the Amendments

The Bourse proposes to amend the following articles of the Rules in order to introduce the Guaranteed Cross Auction functionality:

- Addition of Definitions in Article 1.101;
- Addition of Auction Order and Improvement Order types under Article 6.110 of the Rules;
- Amendment of Article 6.115 pertaining to Order Identification to add paragraph (f) to the Article;
- Amendments in Article 6.205:

    - Modification of prescribed time period and minimum volume threshold in articles 6.205 (b) (ii) pertaining to all expiry months of options and User Defined Strategies (UDS) that will now reflect the new thresholds in effect following introduction of Guaranteed Cross Auction;
    - Modification of Article 6.205 (e) (i) and (iii) to reflect new procedures concerning options strategies;
    - Addition of Article 6.205 (f) to introduce Auction Orders guidelines;
- Modification of Article 11.306 to reflect sub-penny increments allowed at the start of the Auction;
- Modification of Appendix 6B-2 to reflect the changes in procedures concerning options strategies by removing Article (d) which no longer applies

The Bourse proposes to amend the following articles of the Rules in order to introduce the Covered with Stocks functionality:

- Modification of Article 6.205 (e) (ii) to reflect new procedures concerning options strategies;
- Modification of Appendix 6B-2 to reflect the changes in procedures concerning options strategies by removing Article (d) which no longer applies.

A blacklined version of the Amendments against the existing rules is attached as Appendix B hereto for ease of reference.

Background

This analysis presents the second phase of the options market structure revision regarding technological development for the introduction of a Guaranteed Cross Auction functionality as announced in circular 167-21. In order to ensure the Auction mechanism applies to all options transactions, including naked options transactions, options to options strategies, and contingent option trades, it was necessary for the Bourse to automate the manual process required to execute contingent option trades. Indeed, different initiatives by the Bourse have allowed the automation of various processes in the past, yet certain transaction types still require the manual intervention of the Bourse's Market Supervisors' team, such as contingent option trades.

In 2011, User Defined Strategies (UDS) functionality was introduced (circular 11-004), and enabled Approved Participants to create customized strategies that would be disseminated and traded, which included, but was not limited to, the electronic execution of options-to-options strategies. The following year, the introduction of the committed order functionality (circular 11-022) was a first step in enabling the automation of pre-arranged transactions and zero second cross transactions with a price between the bid and ask, as long as the volume of the transactions respected the minimum quantity threshold requirement that applied to pre-arranged transactions and cross transactions (this threshold was set at 100 contracts for equity and ETF options at the time of publication of circular 043-15 in 2015 and was later increased to 250 contracts in 2021 with the publication of circular 167-21). While zero second cross transactions over the specified minimum threshold were enabled to transact via the committed order functionality for naked options, there were no electronic capacity to guarantee a certain percentage of the cross transactions on UDS strategies, which would need to be exposed entirely, regardless of the transaction volume, for the minimum prescribed time period specified in the Rules (this prescribed time period was 5 seconds at the time of the launch of the UDS functionality and in 2021, via circular 167-21, it was reduced to 1 second). Alternatively, instead of exposing their entire strategy transactions for the prescribed time period, participants could guarantee themselves 50% of their strategy transaction by calling in the transaction to a Market Supervisor of the Bourse, who would expose only half of the volume to qualified Marker Makers assigned on the option class as stated in section 6.205 (e) and in Appendix 6B-2(d) of the Rules.

The aforementioned scenario also applies to cross transactions of equity and ETF options contingent trades. Since there is no electronic way for participants to send these transactions as one strategy, the only possibility to execute an option contingent trade is by calling a Market Supervisor of the Bourse, who will manually complete the transaction by (a) sending a message to the TSX for the stock leg and (b) executing the option leg ensuring to expose 50% of the transaction to qualified Market Makers assigned on the option class. This resource intensive process requires manual intervention of both TSX and the Bourse's Market Operations Department, to guarantee a certain percentage in the execution of the cross strategy on one hand and manually execute the contingent option trades on the other hand. The automation of this manual process, via the Covered with Stocks functionality, is required to ensure contingent option trades are executed electronically as UDS and, as such, are able to transact via the Guaranteed Cross Auction functionality. These changes will lead to multiple advantages as described in the following lines.

Rationale for the Amendments and Approach

OBJECTIVES

In today's rapidly evolving financial markets, it is crucial for the Bourse to remain ahead of innovative functionalities and try to eliminate manual interventions, as much as possible, in order to remain competitive with its peers. This is vital to maintain the exchange's relevance considering the ever-increasing demand for additional trading features by participants that are constantly seeking new ways to gain an edge in the market. It is also crucial for the Bourse to attract new global participants by innovating its functionalities in order to respond to the need for automated procedures and efficient trading activity. The introduction of the Guaranteed Cross Auction functionality provides the opportunity to improve the execution price and increase interactions in the central limit order book which is expected to lead to better on-screen market quality and liquidity. The automation of contingent option trades through the Covered with Stocks functionality, is essential to provide a better trading experience through ease of execution with a seamless automated process.

The Guaranteed Cross Auction will enable price improvements as well as more order book interactions from different types of participants for transactions under a specific threshold that are currently reserved for dealers' internalization only. The Guaranteed Cross Auction is introduced with an increase of the minimum volume thresholds for crosses (from 250 contracts to 500 contracts), in order to expose more transactions in the order book and increase the participation of different market participants. At the moment, transactions between 250 contracts and 500 contracts are reserved for dealers' internalization, whereas going forward, any cross transaction under 500 contracts is encouraged to be submitted via the Guaranteed Cross Auction functionality in order to enable possible price improvements as well as more order book interactions.

The Guaranteed Cross Auction will provide the possibility of improving the trade execution price of a liquidity seeker, through an Auction, while potentially preserving a percentage of the trade for the liquidity provider. The Guaranteed Cross Auction functionality will lead to an Auction for transactions with a quantity lower than the threshold specified in table of Article 6.205 (b). Over that specified threshold, the Guaranteed Cross Auction functionality will lead to a zero second cross without Auction, if selected as such by the participants when sending the orders. Otherwise, an Auction will take place regardless of the order size with the use of this functionality. As stated earlier, the mechanism described above will apply to naked options, options to options strategies and, thanks to the Covered with Stocks functionality, contingent option trades as well. In an effort to harmonize the cross volume threshold in the Rules, the minimum volume threshold of 500 contracts described above will apply to all option strategies (naked options and UDS).

The Covered with Stocks functionality, therefore helps to respond to the increased demand from participants to automate the process of contingent option trades , hence eliminating the manual intervention by the Market Supervisors. The Covered with Stocks functionality has two main advantages: accelerate the execution allocation process and eliminate the risk of manual errors. More importantly, the Covered with Stocks functionality will help position the Bourse at a competitive advantage with its peers by offering a risk free execution of contingent option trades. The automation of these strategies makes the exchange more attractive to new participants and sophisticated market makers.

In conclusion, with the advantages described in the above paragraphs, the Bourse believes that the introduction of these new functionalities will modernize its offering to the benefit of the whole ecosystem.

COMPARATIVE ANALYSIS

Guaranteed Cross Auction:

US exchanges:

Chicago Board Options Exchange (CBOE)[1]

CBOE offers an improvement mechanism via the Automated Improvement Mechanism (AIM). AIM is an automated process for crossing of any capacity type, which provides potential price improvement and a participation right through an auction process. By utilizing the AIM crossing mechanism, an order flow provider is afforded the opportunity to participate against their customers' orders or solicit another firm's liquidity.
CBOE'S AIM has the following guidelines:[2]

- Auction period is 100ms
- Minimum price increment is $0.01 for all classes except SPX/SPXW (for simple orders: $0.05 with premium under $3 and $0.10 with premium over $3- for complex orders: $0.05 regardless of premium)
- Additional information:
    - Simple orders of 49 contracts or fewer must be priced $0.01 better than NBBO
    - Simple orders of 50 contracts and plus may be equal to NBBO
    - Complex orders, must be at priced $0.01 better than the local displayed/implied SBBO (Synthetic Best Bid & Offer for strategies)
- Initiating Order is guaranteed 40% if at best price (matched by multiple participants) or 50% (matched by one participant).
- No minimum threshold

---

[1] https://www.cboe.com/us/options/trading/complex_orders/

[2] https://cdn.cboe.com/resources/features/Cboe_USO_CrossingGuide.pdf

- Entering Initiating Order as a market order guarantees participation at best price (auto-matches best price of other auction participants).

BOX Options Market

BOX offers a Price Improvement mechanism[3] (PIP Orders) that follows the following guidelines:

- The Primary Improvement Order is on the opposite side of the market from the PIP Order and must provide a bid higher or equal to (offer lower or equal to) than that posted on the current BOX Options market for the instrument and greater than or equal to the bid (less than or equal to the offer) of the National Best Bid and Offer ("NBBO").
- The Primary Improvement Order cannot be canceled by the initiating BOX Options Participant once accepted for processing by the BOX Options trading engine.
- Participants may introduce Improvement Orders to compete with the Primary Improvement Order. An Improvement Order is not obliged to be for the entire quantity of the PIP Order.
- During the PIP, Improvement Orders may be incremented at price intervals of one cent ($0.01).
- Modification of an Improvement Order: BOX Options Participants competing using the PIP Improvement Order may increase their quantity or improve their price at any point during the PIP; they may reduce their quantity only when they improve the price and may cancel their Improvement Order once they join the PIP auction. Under no circumstances may they disimprove the price on the PIP Order. Unrelated Orders (e.g., orders booked during the PIP at standard minimum price variation increment) are not restricted as to modification or cancellation during the PIP auction.
- Early termination: in certain cases, a PIP may be terminated prior to the completion of the normal duration period. In general, a PIP is terminated prematurely in the case where it is in the customer orders interest to do so to maintain priority or due to new orders in the BOX Options Book which are unrelated to the PIP, but can provide the PIP Order with a better execution price than that available from the Improvement Orders.
- At the conclusion of the PIP: the PIP Order will be matched with opposite side competing orders and quotes in price priority, where the first price level processed is the one that is the best for the PIP Order.

International exchanges:

Euronext

The Euronext exchange has a functionality called a Request-For-Cross[4] (RFC) facility for Equity and Index options that can be used to obtain best execution by submitting a committed cross trade to an open auction. It has a minimum volume of 1 lot and the RFC is submitted by the initiator using a private message containing both buy and sell side information. Once an RFC is submitted and validated against the Best Bid and Offer price, the size of the order and the intended execution price are published and an auction is triggered with a total duration of 150 milliseconds. During the auction, other participants can choose to match or price-improve the cross price. Following the RFC response period, the cross is executed. Depending on the prices submitted during the auction, one or more participants can take part in the cross trade.
The RFC has the following features:

[3] https://boxoptions.com/about/price-improvement/

[4] https://www.euronext.com/en/media/2315/download

- Best execution: Guaranteed execution of client volume and possibility for price improvements.
- Ease of connectivity: RFC orders are submitted directly via the Euronext API using the standard New Order Cross message.
- Efficient alternative to OTC: Access an alternative liquidity pool on-exchange and benefit from reduced counterparty risk and margin offsets via central clearing.
- Central Order Book (COB) orders will be included in the RFC final execution.

Australian Exchange (ASX)

The ASX only offers a price improvement auction for equity trading through ASX Centre Point.[5] ASX Centre Point delivers meaningful price improvement with every execution across all listed securities Orders can be entered with an optional limit price to ensure an order will not trade at a worse price.

<u>Contingent option trades</u>

US exchanges:

Several exchanges offer complex options strategies that include both the option and underlying security components within a single order. Here are a few examples of exchanges that provide such functionality:

Chicago Board Options Exchange (CBOE)[6]

CBOE offers a variety of complex order types, including complex spread orders and stock-option combo orders. Complex orders combining stock and options legs may be executed in open outcry or electronically. Eligible stock-option orders for customer capacity are eligible to initiate an electronic auction via Complex Order Auction (COA) for the possibility of price improvement. Stock-option orders that do not execute in COA may be booked in the Complex Order Book. Upon execution, the option leg(s) will print on Cboe and the stock leg(s) will be printed and cleared by a third-party broker.

Functionality Highlights:

- Up to 16 legs (including one stock leg) are supported. The maximum ratio is 8 option contracts (considering the smallest option leg) to 100 shares. Upon receipt, eligible incoming orders will initiate a 100 millisecond electronic COA auction.
- The order will be auctioned as a packaged order with one net price; traders will be able to respond to the auction in $.01 increments.
- Complex AIM functionality is also available for stock:option orders with up to 16 legs.

---

[5] From "Found out More" section in: https://www2.asx.com.au/markets/trade-our-cash-market/asx-equities-trading/asx-centre-point

[6] https://www.cboe.com/us/options/trading/complex_orders/

NASDAQ ISE and NASDAQ MRX[7]

NASDAQ ISE and MRX offer complex order types that allow traders to execute multi-leg options strategies, including those involving the underlying stocks. Traders can combine options contracts and the corresponding stocks in a single order to implement their desired strategies.

Here are the advantages of their offering:

- Automatic Execution
- Legging into the regular order book (options-only strategies) without leg-in risk
- Implied Orders enable additional interaction with the regular order book
- Execution of equity legs of Stock-Option Orders via Cowen (formerly Convergex)

Their complex orders have the below characteristics:

- Price/time allocation
- Up to 10 legs, including stock
- Max options-to-stock ratio 8:1
- Orders and executions in pennies
- Market and Limit Orders
- IOC, FOK, Day, GTC, GTD, Opening Only Orders
- Spread Auctions
- Post trade allocation (PTA), including stock leg PTA/give-up
- Stock-Option Orders available for all equity symbols

International exchanges:

The Australian Exchange (ASX), Euronext, Hong Kong Exchange (HKEX) and the London Stock Exchange were all considered in this comparative analysis and none of them seem to offer any ability to trade options to stocks strategies in a single order type.

In light of this comparative analysis, the Bourse concludes that many other exchanges offer the possibility of a price improvement auction as well as the ability to send options to stock strategy order types. This reinforces the idea that in order to provide an enhanced trading experience to its participants, the Bourse must innovate toward new trading functionalities that will increase the activity, price discovery and transparency in the order book, without being detrimental to institutional participants who will still have the possibility to internalize the larger portion of their flow.

Analysis of Impacts

(i) Impact on Market

As mentioned previously, the intention of the Bourse is to innovate and provide additional functionalities in the Canadian options market. The Guaranteed Cross Auction functionality provides the possibility for better execution prices while increasing interactions in the order book, while the Covered with Stocks functionality will provide risk free execution of contingent option

---

[7] https://www.nasdaq.com/solutions/nasdaq-ise-and-mrx-complex-orders

trades in a seamless automated process that increases transparency and provides an enhanced trading experience. The Bourse anticipates that the automation of the process of contingent option trades will require participants to certify their technology. In order to ensure a seamless transition for clients with no impact on the market, even after the proposed changes are implemented, there will be a period by which contingent option trades could be effected manually in the same manner as they are today.

(ii) Impacts on technology

The Guaranteed Cross Auction and the Covered with Stocks functionalities will require mandatory protocol upgrades (SAIL, FIX, SAIL and FIX Drop Copy, HSVF and OBF feeds).
The Bourse's internal systems will also be updated to manage the new Guaranteed Cross Auction. Education on the specifications of the functionalities will be key to promote the use of the new functionalities. The business design guide published by the Bourse will be updated with this new information and will help to understand the functioning of these new features. The SAIL and FIX Protocols, also published by the Bourse, will contain in-depth descriptions of the requirements of these functionalities.

(iii) Impacts on regulatory functions

The Regulatory Division will be required to make changes to the surveillance and market analysis functions, as well as revise the corresponding procedures, to accommodate the proposed changes and proposed Amendments to the Bourse's Rules. The surveillance system feed, database, and parameters will have to be updated or reconfigured to support the protocol upgrade and reflect the proposed functionality elements.

(iv) Impacts on clearing functions

Considering the proposed Amendments will take place before the post trading activities, the new functionalities will not have any impact on the clearing functions.

(v) Public interest

The Bourse believes that the proposed changes are in the best interest of all the participants of the Bourse since it will increase interactions in the central limit order book, provide the possibility for better execution prices, foster liquidity, market depth and enhanced overall trading experience through ease of execution with a seamless automated process.

Timing

Following receipt of regulatory approval, we intend to implement the Amendments on March 29th, 2024

APPENDIX A

PROPOSED AMENDMENTS TO THE RULES

BLACKLINED VERSION

Article 1.101 Definitions

[...]

Auction: means an auction phase in which a single order, the Must Be Filled order, is exposed to the Bourse market for a prescribed period of time.

Auction ID: means a unique identifier attributed to each Auction

Must Be Filled (MBF): means an order in an Auction that is guaranteed to be filled.

[...]

Article 6.110 Orders

(a) To be considered valid, an order must specify the name or symbol of the Listed Product, whether it is a buy or sell order, the quantity of the order, explicit instructions regarding the trading price and the conditions which must be met prior to the order becoming effective and the type and duration qualifier of the order.

(b) The types of which entered into the Electronic Trading System are as follows:

[...]

(ix) Auction Order: An Auction Order is composed of a buy and sell order in which one of the orders, defined as the Must Be Filled.

(x) Improvement Order: an Improvement Order is linked to an Auction Order and it must reference a specific Auction via the Auction ID. Any residual quantity from all Improvement Orders following the Auction completion will get canceled.

Article 6.115 Order Identification

[...]

(b) Approved Participants must ensure that the “prearranged transaction marker” is included for each order entered into the Trading System under Article 6.202 or Article 6.205. This requirement does not apply to paragraph (c), sub-paragraph (d)(i),~~ or~~ paragraph (e) or paragraph (f) of Article 6.205.

[...]

Article 6.205 Prearranged Transactions

(a) In general. For the purpose of this Article, "communication" means any communication for the purpose of discerning interest in the execution of a Transaction in the Electronic Trading System prior to the exposure of the order to the market. Any communication that relates to the size, side of market or price of an order, or a potentially forthcoming order, constitutes a communication to prearrange a Transaction.

(b) The parties to a Transaction may engage in communications to prearrange a Transaction on the Electronic Trading System in an eligible derivative in the minimum amount specified where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the Transaction, in accordance with the following conditions:

(i) A customer consent to the Approved Participant engaging in prearranging communications on the customer's behalf. The consent of the client, in whatever form, must be communicated to the Bourse upon request;

(ii) After the first order for the prearranged Transaction is entered into the Electronic Trading System the parties may not enter the second order for the prearranged Transaction until the following specified time period has elapsed as follows:

[...]

ELIGIBLE DERIVATIVES	**PRESCRIBED TIME PERIOD**	**MINIMUM VOLUME THRESHOLD***
Equity and ETF Options:		
All expiry months	0 seconds	≥ 500 ~~250~~ contracts
All expiry months	5 seconds (no prescribed time period for Auction Orders) ~~1 second~~	< 500 ~~250~~ contracts
All UDS Strategies	0~~1~~ second	≥ 500 contracts ~~No Threshold~~
All UDS Strategies	5 seconds (no prescribed time period for Auction Orders)	<500 contracts

Currency Options		
All expiry months	0 seconds	≥ 100 contracts
All expiry months	1 second	< 100 contracts
All UDS Strategies	1 second	No Threshold
Index Options:		
All expiry months	0 seconds	≥ 50 contracts
All expiry months	1 second	< 50 contracts
All UDS Strategies	1 second	No Threshold

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

The volume considered as the minimum volume threshold will be the residual volume after any applicable resting limit orders at or better than the prearranged Transaction price have been given priority.

(iii) The party that initiates communication regarding a prearranged Transaction shall have his or her order entered into the Electronic Trading System first, unless the parties as part of their negotiation agree otherwise. The consent of the client, in whatever form, must be communicated to the Bourse upon request; *provided however,* that in a prearranged Transaction between an Approved Participant and a customer for an equity, ETF or Index Option, the customer's order shall always be entered into the Electronic Trading System first, regardless of which party initiated the communication.

(iv) Limit orders resting in the central limit order book at the time that the first order of the prearranged Transaction is entered at or better than the price of the first order shall be matched with the first order entered. Any residual, unfilled amount of the first order may be matched against the second order of the prearranged Transaction when the second order is entered.

(v) Parties may not aggregate unrelated orders to meet the minimum threshold for a prearranged Transaction.

(vi) The parties to the prearranging communications shall not disclose to any other party details of the negotiation or otherwise enter an order to take advantage of the negotiation during such communications except as permitted in this Article.

(c) Committed Orders. Committed orders may not be used to execute any Transaction under this Article or Article 6.202 having a prescribed time delay longer than zero seconds, and may be used for such Transactions only for the following products subject to the minimum volume threshold:

ELIGIBLE DERIVATIVES FOR COMMITTED ORDERS	**MINIMUM VOLUME THRESHOLD**
All expiry months and excluding UDS strategies	
Equity and ETF Options	500 ~~250~~ contracts

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

(d) Transactions on eligible products with a prescribed time delay. The parties may engage in communications to prearrange a Transaction on the Electronic Trading System where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the Transaction, in accordance with the conditions in paragraph (a) of this Article; *provided however*:

(i) in the case of a prearranged Transaction that is between the bid and ask on the Electronic Trading System and for an amount at or greater than the minimum threshold, the parties in their discretion may enter the prearranged Transaction as an Auction Order or as a committed order with no delay, subject to the conditions in paragraph (c) and (f) of this Article, or

(ii) in the case of a prearranged Transaction that is on or outside the bid and ask on the Electronic Trading System and for an amount at or greater than the minimum threshold, the parties enter the first and second orders of the prearranged Transaction with no delay between the two, but nevertheless subject to execution risk (including the priority given resting limit orders at or better than the prearranged Transaction price).

iii) in the case of a prearranged Transaction for an amount that is lower than the minimum threshold, the parties may enter the prearranged Transaction as an Auction Order, subject to conditions in paragraph (f) of this Article, or by exposing one side of the transaction to the market, for the minimum prescribed time period established in paragraph

(b) of this Article, before entering the opposite side of the transaction, in accordance with Article 6.114.

(e) Equity, ETF, Index and Currency Option Strategy Transactions ~~With 50% Guaranteed Minimum~~. The parties to an Option strategy Transaction may engage in communications to prearrange the Transaction where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the Transaction. Under specific circumstances prescribed by the Bourse, the Approved Participant may contact a Market Supervisor and provide details of the intended Transaction including total quantity, price, side(s) of the Transaction, a description of the legs comprising the strategy and identification of the agreed counterparty. ~~, in accordance with the following conditions:~~

~~(i) Market Makers are permitted to participate on the Transaction up to a total maximum of 50% of the volume of the intended Transaction;~~

~~(ii) each Approved Participant must contact a Market Supervisor and provide details of the intended Transaction including total quantity, price, side(s) of the Transaction, a description of the legs comprising the strategy and identification of the agreed counterparty; and~~

~~(iii) the Approved Participant will be permitted to execute the Transaction for the remaining volume (a minimum of 50% plus any volume not taken of the 50% that had been offered to the Market Makers).~~

(f) Auction Orders. Auction Orders may be used to execute any transaction under this Article or Article 6.202, as prescribed by the Bourse, in accordance with Article 6.114 and subject to the following:

i) In the case of a prearranged Transaction for an amount that is lower than the minimum volume* threshold, the parties in their discretion, may enter the prearranged Transaction as an Auction Order which will trigger an Auction.

ii) In the case of a prearranged Transaction for an amount at or greater than the minimum volume* threshold, the parties may, in their discretion, select to execute the Auction Order as a cross Transaction having a prescribed time delay of zero seconds, without triggering an Auction, only for the following products subject to the minimum volume threshold:

ELIGIBLE OPTIONS FOR AUCTION ORDERS SUBMITTED AS CROSS TRANSACTION WITH A TIME DELAY OF ZERO SECONDS	Minimum volume* threshold

All expiry months and including UDS strategies	
Equity and ETF Options	500 contracts

*The volume considered as the minimum volume threshold will be the residual volume after any applicable resting limit orders at or better than the prearranged Transaction price have been given priority.

iii) During an Auction, each beneficial owner can submit a maximum of one Improvement Order or regular order per price point.

Article 11.306 Minimum Fluctuation of Option Premium

Unless determined otherwise by the Bourse, the minimum fluctuation of the Premium is:

(a) For equity Options excluded from the penny trading program:

(i) Option Series priced below $0.50 are quoted in increments of $0.01.

(ii) Option Series priced at $0.50 or more are quoted in increments of $0.05.

(b) For equity Options included in the penny trading program:

(i) Option Series priced below $3.00 are quoted in increments of $0.01.

(ii) Option Series priced at $3.00 or more are quoted in increments of $0.05.

(c) For equity and ETF Options, Auctions Orders and Improvement Orders that match an Auction Order can be quoted in increments of $0.0001. Improvement Orders that improve the price of an Auction Order must respect the increments mentioned in Article 11.306 (a) and (b) above.

Appendix 6B-2 DESCRIPTION

[...]

(c) Execution by Market Operations Department.

All option strategies must be executed using the Bourse's UDS facility. Notwithstanding the aforementioned, if a strategy cannot be created and broadcasted using the UDS because the strategy type is not supported by the UDS facility, or because one of the strategy legs is the

underlying share, the Approved Participant may submit to the Bourse a strategy order for execution using the following procedure:

(i) The Approved Participant must contact the Market Operations Department and indicate its Option strategy. The information provided must include the Option series involved, the quantity ratio, the price and the total quantity of the order. Approved Participants must have received and time-registered their order prior to contacting the Market Operations Department. If the intended strategy includes an equity leg, the Approved Participant must also indicate the reference price of the Underlying Interest and the number of shares to be executed in the strategy.

[...]

~~(d) Execution of Cross Transaction on Strategies Involving Options.~~

~~(i) Cross Transactions with a 50% Guaranteed minimum will not be accepted electronically. Please refer to Article 6.205.~~

~~(ii) Cross Transactions on equity Options strategies without a 50% Guaranteed minimum will be accepted electronically. Please refer to Article 6.202.~~

CLEAN VERSION

Article 1.101 Definitions

[...]

Auction: means an auction phase in which a single order, the Must Be Filled order, is exposed to the Bourse market for a prescribed period of time.

Auction ID: means a unique identifier attributed to each Auction

Must Be Filled (MBF): means an order in an Auction that is guaranteed to be filled.

[...]

Article 6.110 Orders

(a) To be considered valid, an order must specify the name or symbol of the Listed Product, whether it is a buy or sell order, the quantity of the order, explicit instructions regarding the trading price and the conditions which must be met prior to the order becoming effective and the type and duration qualifier of the order.

(b) The types of which entered into the Electronic Trading System are as follows:

[...]

(ix) Auction Order: An Auction Order is composed of a buy and sell order in which one of the orders, defined as the Must Be Filled.

(x) Improvement Order: an Improvement Order is linked to an Auction Order and it must reference a specific Auction via the Auction ID. Any residual quantity from all Improvement Orders following the Auction completion will get canceled.

Article 6.115 Order Identification

[...]

(b) Approved Participants must ensure that the “prearranged transaction marker” is included for each order entered into the Trading System under Article 6.202 or Article 6.205. This requirement does not apply to paragraph (c), sub-paragraph (d)(i), paragraph (e) or paragraph (f) of Article 6.205.

[...]

Article 6.205 Prearranged Transactions

(a) In general. For the purpose of this Article, “communication” means any communication for the purpose of discerning interest in the execution of a Transaction in the Electronic Trading System prior to the exposure of the order to the market. Any communication that relates to the size, side of market or price of an order, or a potentially forthcoming order, constitutes a communication to prearrange a Transaction.

(b) The parties to a Transaction may engage in communications to prearrange a Transaction on the Electronic Trading System in an eligible derivative in the minimum amount specified where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the Transaction, in accordance with the following conditions:

(i) A customer consent to the Approved Participant engaging in prearranging communications on the customer’s behalf. The consent of the client, in whatever form, must be communicated to the Bourse upon request;

(ii) After the first order for the prearranged Transaction is entered into the Electronic Trading System the parties may not enter the second order for the prearranged Transaction until the following specified time period has elapsed as follows:

[...]

ELIGIBLE DERIVATIVES	**PRESCRIBED TIME PERIOD**	**MINIMUM VOLUME THRESHOLD**
Equity and ETF Options:		
All expiry months	0 seconds	≥ 500 contracts
All expiry months	5 seconds (no prescribed time period for Auction Orders)	< 500 contracts
All UDS Strategies	0 second	≥ 500 contracts
All UDS Strategies	5 seconds (no prescribed time period for Auction Orders)	<500 contracts
Currency Options		

All expiry months	0 seconds	≥ 100 contracts
All expiry months	1 second	< 100 contracts
All UDS Strategies	1 second	No Threshold
Index Options:		
All expiry months	0 seconds	≥ 50 contracts
All expiry months	1 second	< 50 contracts
All UDS Strategies	1 second	No Threshold

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

The volume considered as the minimum volume threshold will be the residual volume after any applicable resting limit orders at or better than the prearranged Transaction price have been given priority.

(iii) The party that initiates communication regarding a prearranged Transaction shall have his or her order entered into the Electronic Trading System first, unless the parties as part of their negotiation agree otherwise. The consent of the client, in whatever form, must be communicated to the Bourse upon request; *provided however,* that in a prearranged Transaction between an Approved Participant and a customer for an equity, ETF or Index Option, the customer's order shall always be entered into the Electronic Trading System first, regardless of which party initiated the communication.

(iv) Limit orders resting in the central limit order book at the time that the first order of the prearranged Transaction is entered at or better than the price of the first order shall be matched with the first order entered. Any residual, unfilled amount of the first order may be matched against the second order of the prearranged Transaction when the second order is entered.

(v) Parties may not aggregate unrelated orders to meet the minimum threshold for a prearranged Transaction.

(vi) The parties to the prearranging communications shall not disclose to any other party details of the negotiation or otherwise enter an order to take advantage of the negotiation during such communications except as permitted in this Article.

(c) Committed Orders. Committed orders may not be used to execute any Transaction under this Article or Article 6.202 having a prescribed time delay longer than zero seconds, and may be used for such Transactions only for the following products subject to the minimum volume threshold:

ELIGIBLE DERIVATIVES FOR COMMITTED ORDERS	**MINIMUM VOLUME THRESHOLD**
All expiry months and excluding UDS strategies	
Equity and ETF Options	500 contracts

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

(d) Transactions on eligible products with a prescribed time delay. The parties may engage in communications to prearrange a Transaction on the Electronic Trading System where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the Transaction, in accordance with the conditions in paragraph (a) of this Article; *provided however*:

(i) in the case of a prearranged Transaction that is between the bid and ask on the Electronic Trading System and for an amount at or greater than the minimum threshold, the parties in their discretion may enter the prearranged Transaction as an Auction Order or as a committed order with no delay, subject to the conditions in paragraph (c) and (f) of this Article, or

(ii) in the case of a prearranged Transaction that is on or outside the bid and ask on the Electronic Trading System and for an amount at or greater than the minimum threshold, the parties enter the first and second orders of the prearranged Transaction with no delay between the two, but nevertheless subject to execution risk (including the priority given resting limit orders at or better than the prearranged Transaction price).

iii) in the case of a prearranged Transaction for an amount that is lower than the minimum threshold, the parties may enter the prearranged Transaction as an Auction Order, subject to conditions in paragraph (f) of this Article, or by exposing one side of the transaction to the market, for the minimum prescribed time period established in paragraph (b) of this Article, before entering the opposite side of the transaction, in accordance with Article 6.114.

(e) Equity, ETF, Index and Currency Option Strategy Transactions. The parties to an Option strategy Transaction may engage in communications to prearrange the Transaction where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the Transaction. Under specific circumstances prescribed by the Bourse, the Approved Participant may contact a Market Supervisor and provide details of the intended Transaction including total quantity, price, side(s) of the Transaction, a description of the legs comprising the strategy and identification of the agreed counterparty.

(f) Auction Orders. Auction Orders may be used to execute any transaction under this Article or Article 6.202, as prescribed by the Bourse, in accordance with Article 6.114 and subject to the following:

i) In the case of a prearranged Transaction for an amount that is lower than the minimum volume* threshold, the parties in their discretion, may enter the prearranged Transaction as an Auction Order which will trigger an Auction.

ii) In the case of a prearranged Transaction for an amount at or greater than the minimum volume* threshold, the parties may, in their discretion, select to execute the Auction Order as a cross Transaction having a prescribed time delay of zero seconds, without triggering an Auction, only for the following products subject to the minimum volume threshold:

ELIGIBLE OPTIONS FOR AUCTION ORDERS SUBMITTED AS CROSS TRANSACTION WITH A TIME DELAY OF ZERO SECONDS	Minimum volume* threshold
All expiry months and including UDS strategies	
Equity and ETF Options	500 contracts

*The volume considered as the minimum volume threshold will be the residual volume after any applicable resting limit orders at or better than the prearranged Transaction price have been given priority.

iii) During an Auction, each beneficial owner can submit a maximum of one Improvement Order or regular order per price point.

Article 11.306 Minimum Fluctuation of Option Premium

Unless determined otherwise by the Bourse, the minimum fluctuation of the Premium is:

(a) For equity Options excluded from the penny trading program:

(i) Option Series priced below $0.50 are quoted in increments of $0.01.

(ii) Option Series priced at $0.50 or more are quoted in increments of $0.05.

(b) For equity Options included in the penny trading program:

(i) Option Series priced below $3.00 are quoted in increments of $0.01.

(ii) Option Series priced at $3.00 or more are quoted in increments of $0.05.

(c) For equity and ETF Options, Auctions Orders and Improvement Orders that match an Auction Order can be quoted in increments of $0.0001. Improvement Orders that improve the price of an Auction Order must respect the increments mentioned in Article 11.306 (a) and (b) above.

Appendix 6B-2 DESCRIPTION

[...]

(c) Execution by Market Operations Department.

All option strategies must be executed using the Bourse's UDS facility. Notwithstanding the aforementioned, if a strategy cannot be created and broadcasted using the UDS because the strategy type is not supported by the UDS facility, or because one of the strategy legs is the **underlying share**, the Approved Participant may submit to the Bourse a strategy order for execution using the following procedure:

(i) The Approved Participant must contact the Market Operations Department and indicate its Option strategy. The information provided must include the Option series involved, the quantity ratio, the price and the total quantity of the order. Approved Participants must have received and time-registered their order prior to contacting the Market Operations Department. If the intended strategy includes an equity leg, the Approved Participant must also indicate the reference price of the Underlying Interest and the number of shares to be executed in the strategy.

[...]