CIRCULAR 167-21
October 5, 2021

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. REGARDING PREARRANGED TRANSACTIONS AND MINIMUM PRICE INCREMENTS FOR THE OPTIONS MARKET

On September 14, 2021, the Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") approved amendments to articles 6.202, 6.205, 6.308, 11.306 and 11.505 of the Rules of the Bourse. The Bourse is proposing to modify the equity, ETF, currency and index options crossing procedures with the objective to further enhance transparency, increase the activity in the order book and improve overall execution for all options market participants. The Bourse is also proposing to change the minimum price increment for equity and ETF options excluded from the Penny Trading Program to allow increments of \$0.01 on options series priced below \$0.50.

Comments on the proposed amendments must be submitted at the latest on **November 5, 2021**. Please submit your comments to:

Martin Jannelle
Senior 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 ("**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, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

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

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. REGARDING PREARRANGED TRANSACTIONS AND MINIMUM PRICE INCREMENTS FOR THE OPTIONS MARKET

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I. DESCRIPTION

Bourse de Montreal Inc. (the “Bourse”) is proposing to modify the equity, ETF, currency and index options crossing procedures outlined in Articles 6.202 and 6.205 of the Rules with the objective to further enhance transparency, increase the activity in the order book and improve overall execution for all options market participants.

This initiative is a first step towards introducing a new market structure for the Canadian options market while the Bourse seeks to develop new functionalities.

The Bourse is also proposing to modify Articles 6.308, 11.306 and 11.505 of the Rules to change the minimum price increment for equity and ETF options excluded from the Penny Trading Program to allow increments of $0.01 on options series priced below $0.50.

As a reminder, the Penny Trading Program introduced as a Pilot Program in 2007 and made permanent in 2016, specifies the following trading increments for the classes included in the Program:

Increments of one cent for equity options trading at less than $3.00 and increments of five cents for equity options trading at $3.00 and more,

Increments of one cent for exchange-traded fund options on all option series regardless of the premium level.

For many years, the Bourse has been actively working with market participants to grow the Canadian options market by facilitating access, developing new functionalities, optimizing procedures and educating investors. Over the last decade, MX options volumes have grown at a steady pace and the market appears to have reached an equilibrium, serving both institutional and retail investors through its unique hybrid model.

The Bourse’s hybrid model (market makers vs institutional orders - as further described below) was the result of changes to the market structure implemented in 2008 that helped bring the institutional volume on screen while maintaining a competitive market making model to service the retail investors. These changes allowed for the internalization of crosses above a certain threshold when the dealers acted as liquidity providers.

The Bourse is now in the process of revising its current market structure to ensure that it is still accurate and that it serves the best interests of all market participants. The intent is to implement some short-term changes as a first step towards an enhanced market structure that will position the options market for growth in future years.

Below is a roadmap of the changes proposed for the coming years:

1. **Revisions to the options crossing procedures and minimum price increment:** The Bourse will consider the right parameters for:

a. The minimum volume threshold for equity, and ETF options

b. The prescribed time delay for crosses on equity, ETF, currency and index options

c. The minimum price increment for equity and ETF options excluded from the penny trading program on options series priced below $0.50 (instead of $0.10).

2. **Revision to the options market structure:** This is a second phase initiative requiring technological developments that would see automation embedded in the crossing procedures while introducing new concepts such as the Request for Cross and Price Improvement Mechanism.

II. PROPOSED AMENDMENTS

Prearranged Transactions

The proposed amendments target Articles 6.202 and 6.205 of the Rules and, more specifically, the prescribed time period and the minimum volume threshold that participants need to respect before executing a pre-arranged transaction in the Electronic Trading System related to equity, ETF, currency and index options.

The changes will also impact the minimum volume threshold on the same suite of products executed with the Committed Orders functionality.

Below are the specifications of the current and new proposed procedures for pre-arranged transactions:

The Bourse proposes to modify paragraph a) of Article 6.202 of the Rules to read as follows:

" *the customer order has first been entered on the Electronic Trading System and exposed to the market for the minimum prescribed time period established in Article 6.205*."

Details regarding equity, ETF, currency and index options in the table in Article 6.205 (b)(ii) will be replaced with details highlighted in blue in the table below:

Eligible derivatives	Prescribed Time Period		Minimum Volume Threshold	
	Old	New	Old	New
Equity and ETF options				
All expiry months	0 second	0 second	≥ *100*contracts	≥250 contracts
All expiry months	5 seconds	1 second	< 100 contrats	<250 contracts
All UDS strategies	5 seconds	1 second	No threshold	-
Currency options				
All expiry months	0 second	0 second	≥ *100*contracts	-

All expiry months	5 seconds	1 second	<100 contracts	-
All UDS strategies	5 seconds	1 second	No threshold	-
Index options				
All expiry months	0 second	0 second	≥50 contracts	-
All expiry months	5 seconds	1 second	<50 contacts	-
All UDS strategies	5 seconds	1 second	No threshold	-

The minimum volume threshold will remain unchanged for currency and index options since liquidity and market making support are not currently sufficient to justify any modification for these two products. No changes, other than the reduction in the prescribed time period, will be introduced in phase one on cross procedures on UDS since the Bourse will be developing a Guaranteed Cross order type in phase two that will allow for the exposure of a percentage of the order in the electronic book while guaranteeing part of it to the initiator of the cross.

The Bourse also proposes amendments to the table in paragraph (c) of Article 6.205. Below are the specifications of the current and new (in blue) proposed procedures for committed orders:

Eligible derivative for committed orders	Minimum volume threshold	
	Old	New
All expiry months and strategies		
Equity and ETF options	100 contracts	250 contracts
Currency options	100 contracts	-
Index options	50 contracts	-

Price Increments

Finally, the Bourse also proposes to amend Articles 6.308, 11.306 and 11.505 of the Rules related to the minimum price increments for equity and ETF options excluded from the penny program. Currently, option series priced below \$0.10 are quoted in increments of \$0.01. The Bourse proposes to change it to options series priced below \$0.50 to be quotes in increments of \$0.01.

III. ANALYSIS

a. Background

The Bourse’s market model for equity options is currently a hybrid model based on competitive market makers while offering special crossing procedures for large institutional orders. This is a unique model, combining features of the US and European market models in trying to accommodate retail and institutional clients. As described below, this model was necessitated by the flows of capital in the Canadian market, which posed some challenges for market makers required to post continuous two-sided markets.

In 2001, the Bourse’s options market moved from a specialist model to a competitive market making model opening up market making opportunities to a wider number of interested participants, while simultaneously improving the price discovery process. This was a significant development that resulted in a visible improvement in the quality of the Canadian options market in the areas of liquidity, ease of execution and price discovery.

This transparent and competitive environment benefited the Canadian retail investors who represented more than 80% of the Bourse’s options volume until 2008. Institutional volume, which then accounted for a smaller percentage of the options market volume, started to come on exchange, applying pressure to the Bourse to review its market model as the nature of the Canadian options landscape forced broker/dealers to commit resources and deploy capital on institutional trades and act as liquidity providers for large orders that could not be executed in the book.

With market evolution and the increase of volume in crosses and prearranged transactions, the Bourse responded in 2008 to the needs of its participants by modifying the crossing procedures and automating the outright crosses that were until then handled manually.

Zero-second cross procedures for pre-arranged transactions were introduced for trades ≥ 100 contracts with a price between the bid/ask spread. With an intended cross price at or outside the option’s best bid or ask, the market participant has the obligation to fill all existing orders in the central order book at limit prices better than or equal to the cross price before completing the transaction.

The Bourse also introduced a committed order functionality in 2015 to facilitate the crossing procedures.

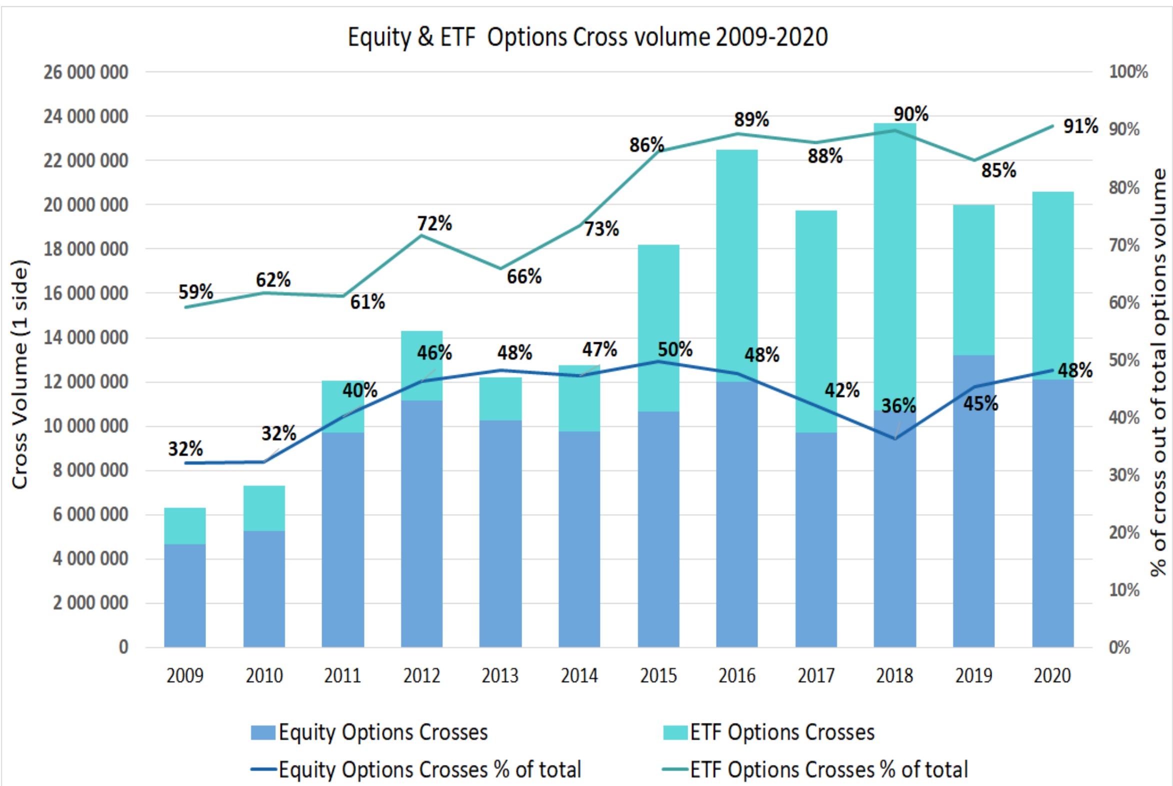
This market model proved successful and attracted new institutional flow that would otherwise have been executed in the OTC market. The institutional participation in the options volume went from 20% in 2008 to 48% in 2020.

The Bourse's current market model is also based on a system of competitive market makers whose presence is essential as they provide and enhance market liquidity, as well as facilitate price discovery. The Bourse’s options market makers have tailored market making agreements in which the obligations and incentives to provide liquidity are defined.

Despite the success at the institutional level, the introduction of zero-second crosses removed a significant incentive from market makers by preventing them from participating in crosses above 100 contracts.

In the years following the 2008 market changes, differences in the equity & ETF options market became more obvious as cross activity increased and reflected the market need for institutions to act as principal on large transactions that could not necessarily be accommodated by market makers due to their size.

In 2009, crosses represented 32% of the equity options volume and 60% of the ETF options volume. These proportions have greatly increased since, as demonstrated in the graph below. Cross volume averaged around 45% of the total equity options and 88% of the total ETF options volume in the past 3 years; in absolute terms the cross activity represents on average 12M contracts for equity options and 9,5M contracts for ETF options.



Cross transactions in both options types have followed similar behavior patterns over the last three years with the main takeaways as follows:

Equity options

● The majority of client cross transactions in equity options take place in order sizes of 1k to 5k: on average, this segment represents 54% of the equity options volume in the past 3 years.

● The segment targeted by this initiative: transactions with volumes of 100-249 contracts represents, on average, 3% of the total equity options cross client's volume in the past 3 years.

- About 2300 transactions with average sizes of 150 contracts take place within 100 to 249 contracts.

ETF options

- The majority of client cross transactions in ETF options take place in order sizes of 1k to 15k: on average, this segment represents 58% of the volume in the past 3 years.
- The volume done in contract sizes between 100-249 contracts represents on average 0,11% of the total client ETF options cross volume in the past three years.
- About 60 transactions with average sizes of 165 contracts take place within 100 to 249 contracts

The volume targeted by this initiative, 100-249 contracts for equity & ETF options, would therefore impact a small fraction of the institutional flow while giving back the opportunity for market makers to interact with this volume in the market.

b. Objectives

<u>Prearranged Transactions</u>

Although the hybrid market model implemented in 2008 may not have appeased all market participants and stakeholders, it indisputably contributed to the evolution of the Canadian options market and serviced both retail and institutional clients for the past 12 years.

In an effort to improve the current market structure and assess enhancements that could better serve its clients, the Bourse consulted with market participants to evaluate the current state of the options market and to explore ways that could further enhance liquidity, and improve overall execution.

Lately, the Bourse created an **Options Market Structure Advisory Committee** composed of a select group of decision-makers representing a wide range of participants across its clients. The Committee meetings were held virtually in the fall of 2020 for the sell side clients and the market makers and in the winter of 2021 for the buy-side clients. The main goal of the Advisory Committee was to provide stakeholders with the opportunity to share their opinions and perspective on the existing market structure. The Bourse also conducted a survey with the major stakeholders and held interviews conducted by a consulting firm.

The cross execution in zero seconds is as much a point of contention as it was 12 years ago. While most agreed that it keeps volume that would otherwise go OTC, all market makers were in favour of some interaction with the crosses and most institutional brokers providing liquidity were opposed to any sort of interference.

While some participants criticized liquidity, others were of the opinion that the current liquidity is enough for the retail clients that trade in the book and is the result of the bifurcated market that the market structure created between retail and institutional clients. Everyone agrees that we need to improve the liquidity and the quality of the market in the order book.

The Bourse acknowledges the contribution of the Canadian brokers/dealers that helped provide liquidity and grow the institutional segment of the options market. While it also acknowledges the necessity of keeping the zero-second cross procedures on large institutional trades, it came to the conclusion that the market model needs to evolve. In fact, the liquidity present in the electronic book is satisfactory for the retail clients while institutional clients have access to a hidden liquidity provided by the dealer community.

By increasing as a first step the minimum volume threshold that participants need to respect before executing a pre-arranged transaction to 250 contracts on equity and ETF options, the Bourse will be increasing the activity in the electronic order book, providing the opportunity to the market making community to step in and participate in providing liquidity to a small segment that was not accessible to them before.

The Bourse is also proposing to reduce the prescribed time period that participants need to respect before entering the second order of the per-arranged transaction. The prescribed time period will be reduced to one second since electronic algorithms are capable of interacting with orders in a lesser amount of time.

While the changes introduced by this initiative may seem very small, they are a step towards redesigning the options market structure. The Bourse has committed to developing new functionalities that will change the way certain crosses are interacted with in the order book.

Price Increment

The second change introduced by this initiative is related to Articles 6.308, 11.306 and 11.505. The Bourse proposes to change the minimum price increment for equity and ETF options excluded from the penny trading program to allow increments in \$0.01 on options series priced below \$0.50. This change is driven by the objective of having tighter spreads on low premium options, facilitating fairer prices, increased liquidity and reduced slippage on execution.

The Bourse received a wide range of opinions from market participants in regards to the optimal market structure. The Bourse reviewed the comments in the context of the evolution of the market and is confident that the Canadian options market has enough liquidity providers to support the proposed changes without putting the execution at risk. The Bourse will be monitoring the new settings to ensure that the changes are bringing the desired effect and that the execution of larger orders targeted by these changes is done in an orderly manner.

As mentioned before, the proposed changes are small adjustments to the current options market structure until the Bourse develops new functionalities like the price improvement mechanism, the request for cross functionality and the guaranteed cross order type. The Bourse will continue to work with the market participants to define the optimal implementation of this new technology and to design the second phase of changes in the options market structure.

The changes proposed in phase 1 and phase 2 to the options market structure are also part of a bigger roadmap that the Bourse would like to introduce to revitalize the Canadian options market. The Bourse is committed to reducing the impacts of the structural issues that have been limiting the growth of the options market. The Bourse will also review the commercial agreements with its options market makers and will continue focusing on educating investors to grow the retail market.

c. Comparative Analysis

Euronext[1]

Euronext trading members and investors looking to expose a committed bilateral cross trade to multilateral liquidity can benefit from possible price improvements and central clearing by using the Request for Cross (RFC) facility in order to obtain best execution by submitting a committed cross trade to an open auction.

Once an RFC is submitted and validated against the Best Bid and Offer price (BBO), the size of the order and the intended execution price are published and a short auction is triggered which lasts between 1 and 2 seconds. During the RFC response period, other participants, also referred to as RFC reactors, may choose to match or price-improve the cross level.

Following the RFC response period, the cross is executed. Depending on the prices submitted during the RFC response period, one or more RFC reactors can take part in the cross trade.

Euronext's solution has the following features:

- Best Execution: Guaranteed execution of client volume and possibility for price improvements with €0.01 price increments (tick size).
- 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.
- Minimum volume threshold of 1 lot for equity and index options.

ASX[2]

Trading participants can effect cross transactions using the following automated systems:

a) Cross single-series function, reserved for a single contract series
b) Cross with Trade Match function, reserved for other derivative type combinations

ASX's solution has the following features:

- Participants can proceed with cross as soon as the market maker has established a market or 30 seconds from making the request, whichever comes earlier.

1 https://www.euronext.com/en/for-investors/financial-derivatives/wholesale-trading

2 https://www.asx.com.au/documents/rules/Draft_ASX_Operating_Rules_procedures.pdf

- A minimum of 50% must be offered to the market before proceeding with the balance. Only after 15 seconds can the remaining balance be entered along with any remaining portion from the initial order.
- Tick sizes must be $0.01 for premiums above $2.00, $0.005 under $2.00
- Crosses on derivative products are permitted outside of ASX trading hours for clients that are non-residents of Australia

CBOE[3]

Cboe offers automated crossing functionality for facilitation and solicitation orders with the Automated Improvement Mechanism (AIM). AIM is an automated process for crossing of any capacity type, which provides potential for 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 (facilitation) or solicit another firm's liquidity (solicitation).

CBOE’s solution has the following features:

- Up to 10 contra-parties per Initiating Order are supported.
- Minimum price increment is $0.01 for all classes except SPX/SPXW ($0.05 or $0.10 depending on premium)
- When the National Best Bid and Offer (NBBO) is one tick wide, orders of 49 contracts or fewer must be priced one tick better than NBBO.
- Auction period is 100ms
- Initiating Order is guaranteed 40% if at best price (matched by multiple participants) or 50% (matched by one participant).
- For complex orders, the price must be at least $0.01 inside the local displayed/implied SBBO (Synthetic Best Bid & Offer for strategies)
- No minimum threshold
- Entering Initiating Order as a market order guarantees participation at best price (auto-matches best price of other auction participants).
- Customer-to-customer orders can be placed within NBBO and must improve customer order on CBOE book. No exposure time required (0ms)

CBOE also offers the following Closing Cross function:

- This new function is a post close trading service designed to provide a simple, cost-effective way for market participants to execute their end of day trading activities. The closing cross gives market participants the opportunity to choose the price they wish to trade at after the continuous trading session has ended.
- It functions independently from the listing exchange and does not depend on their closing auction price. With the closing cross, participants enter orders, set their “at limit” price and the closing cross function formulates a volume maximising cross every 15 seconds throughout the 25-minute session.

3 https://cdn.cboe.com/resources/features/Cboe_USO_CrossingGuide.pdf

- Only available for European order books
- Orders entered will be visible and subject to a 20% collar of the last traded price on the Cboe continuous market.

Based on the foregoing review, the Bourse concludes that the options markets worldwide have different crossing functionalities adapted to the reality and the level of maturity of their markets. The Bourse would like to move the Canadian options market forward and position it for growth by introducing functionalities that will bring more transparency and activity in the order book without introducing execution risk on large institutional orders.

d. Analysis of Impacts

i. Impacts on Market

The Bourse considers that the proposed changes are not disruptive to the market since the new threshold represents a small percentage of the total activity of the options market. The Bourse is of the opinion that it has enough committed market makers to provide liquidity to the additional number of contracts exposed in the book without putting execution at risk. The Bourse also considers that a one second prescribed time period is a long enough exposure for the electronic activity in the orderbook.

As for the change to allow increments in $0.01 on options series priced below $0.50, and as mentioned above, it will introduce more effective pricing on low premium options.

ii. Impacts on Technology

Impact on the technology side should be minimal since the proposed modification would result in internal configuration changes only.

iii. Impacts on regulatory functions

The proposed changes should have a minimal impact on the surveillance activities of the Regulatory Division of the Bourse. Procedures will have to be updated and parameters reconfigured in the surveillance system in order to reflect the proposed changes.

iv. Impacts on clearing functions

The proposed changes should have no impact on the clearing functions of CDCC, on CDCC's Rules and Manuals, nor on CDCC's Clearing Members, or other Industry participants dealing with CDCC.

v. Public Interest

The Bourse considers that the present initiative is in the interest of the public as changes need to be made to modernize and strengthen the Canadian options market structure. As a first phase, the Bourse is of the opinion that this initiative is a step in the right direction in order to bring more activity and transparency to the order book.

IV. 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.

V. ATTACHED DOCUMENTS

The proposed amendments are attached.

SCHEDULE 1
PROPOSED AMENDMENTS

COMPARED VERSION

6.202 Trading Against Customer Orders (Cross-Trades)

An Approved Participant may not knowingly, directly or indirectly, take the opposite side of a customer order for the Approved Participant's own account, an account in which the Approved Participant has a direct or indirect financial interest or an account over which the Approved Participant has discretionary trading authority, unless:

(a) the customer order has first been entered on the Electronic Trading System and exposed to the market for the minimum prescribed time period established in Article 6.205~~for a minimum period of 5 seconds for Futures and Options~~; or

(b) the Transaction is otherwise, and explicitly permitted by, and carried out in accordance with, the Rules; including, but not limited to, prearranged Transactions pursuant to Article 6.205.

[...]

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
Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
One-Month CORRA Futures Contracts (COA):		
All expiry months and strategies	5 seconds	No threshold
Three-Month CORRA Futures Contracts (CRA):		
All expiry months and strategies	5 seconds	No threshold
Government of Canada Bond Futures Contracts:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX and S&P/MX Indices:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Basis Trade on Close: All expiry months	0 seconds	≥ 100 contracts
Basis Trade on Close: All expiry months	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Two-Year Government of Canada Bond Futures Contracts (OGZ):		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Five-Year Government of Canada Bond Futures Contracts (OGF):		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
Equity and~~,~~ ETF ~~and Currency~~ Options:		
All expiry months	0 second~~s~~	≥ 250~~100~~ contracts
All expiry months	1~~5~~ second~~s~~	< 250~~100~~ contracts
All UDS Strategies	1~~5~~ second~~s~~	No Threshold
Currency Options :		
All expiry months	0 second	≥ 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~~5~~ second~~s~~	< 50 contracts
All UDS Strategies	1~~5~~ second1~~s~~	No Threshold
Canadian Share Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Basis Trade on Close: All expiry months	0 seconds	≥ 100 contracts
Basis Trade on Close: All expiry months	5 seconds	< 100 contracts
Futures and Options on Futures Inter-Group Strategies		
All strategies	5 seconds	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.

(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 Electronic Trading System 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 strategies	
Futures Contracts on S&P/TSX, S&P/MX and FTSE Emerging Markets Indices	100 contracts
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts	250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts	250 contracts
Options on Two-Year Government of Canada Bond Futures Contracts	250 contracts
Options on Five-Year Government of Canada Bond Futures Contracts	250 contracts
Canadian Share Futures Contracts	100 contracts
All expiry months and excluding UDS strategies	
Equity and~~,~~ ETF ~~and Currency~~ Options	250~~100~~ contracts
Currency Options	100 contracts
Index Options	50 contracts
Basis Trade on Close	
Futures Contracts on S&P/TSX and S&P/MX Indices	100 contracts
Canadian Share Futures Contracts	100 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 a committed order with no delay, subject to the conditions in paragraph (c) of this Article, or

(ii) in the case of a prearranged Transaction that is on or between 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).

(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, 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).

[...]

6.308 Minimum Price Increment

The minimum price increments are as follows:

(a) For equity Options excluded from the penny trading program:
(i) Option series priced below $0.5~~1~~0 are quoted in increments of $0.01; and
(ii) Option series priced at $0.5~~1~~0 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; and
(ii) Option series priced at $3.00 or more are quoted in increments of $0.05.

(c) For ETF Options excluded from the penny trading program:
(i) Option series priced below $0.5~~1~~0 are quoted in increments of $0.01; and
(ii) Option series priced at $0.5~~1~~0 or more are quoted in increments of $0.05.

(d) For ETF Options included in the penny trading program, all Series of Options are quoted in increments of $0.01, regardless of price level.

(e) For Index Options, all Series of Options are quoted in increments of 0.01 Index point, regardless of price level.

(f) For Futures Options, all Series of Options series are quoted in increments of 0.001 point, regardless of price level.

(g) For currency Options, all Series of Options are quoted in increments of CAN 0.01 cent per unit of foreign currency.

[...]

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 $0.5~~1~~0 are quoted in increments of $0.01.
(ii) Option Series priced at $0.5~~1~~0 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.

[...]

11.505 Minimum Fluctuation of Option Premium

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

(a) For exchange-traded fund Options excluded from the penny trading program:
(i) Option Series priced below $0.5~~1~~0 are quoted in increments of $0.01.
(ii) Option Series priced at $0.5~~1~~0 or more are quoted in increments of $0.05
.

(b) For exchange-traded fund Options included in the penny trading program, all Option Series are quoted in increments of $0.01, regardless of the Premium level.

CLEAN VERSION

6.202 Trading Against Customer Orders (Cross-Trades)

An Approved Participant may not knowingly, directly or indirectly, take the opposite side of a customer order for the Approved Participant's own account, an account in which the Approved Participant has a direct or indirect financial interest or an account over which the Approved Participant has discretionary trading authority, unless:

(a) the customer order has first been entered on the Electronic Trading System and exposed to the market for the minimum prescribed time period established in Article 6.205; or

(b) the Transaction is otherwise, and explicitly permitted by, and carried out in accordance with, the Rules; including, but not limited to, prearranged Transactions pursuant to Article 6.205.

[...]

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
Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
One-Month CORRA Futures Contracts (COA):		
All expiry months and strategies	5 seconds	No threshold
Three-Month CORRA Futures Contracts (CRA):		
All expiry months and strategies	5 seconds	No threshold
Government of Canada Bond Futures Contracts:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX and S&P/MX Indices:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Basis Trade on Close: All expiry months	0 seconds	≥ 100 contracts
Basis Trade on Close: All expiry months	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):		
All expiry months and strategies	0 seconds	≥ 250 contracts

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
All expiry months and strategies	5 seconds	< 250 contracts
Options on Two-Year Government of Canada Bond Futures Contracts (OGZ):		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Five-Year Government of Canada Bond Futures Contracts (OGF):		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Equity and ETF Options:		
All expiry months	0 second	≥ 250 contracts
All expiry months	1 second	< 250 contracts
All UDS Strategies	1 second	No Threshold
Currency Options :		
All expiry months	0 second	≥ 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
Canadian Share Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Basis Trade on Close: All expiry months	0 seconds	≥ 100 contracts
Basis Trade on Close: All expiry months	5 seconds	< 100 contracts
Futures and Options on Futures Inter-Group Strategies		
All strategies	5 seconds	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.

(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 Electronic Trading System 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 strategies	
Futures Contracts on S&P/TSX, S&P/MX and FTSE Emerging Markets Indices	100 contracts
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts	250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts	250 contracts
Options on Two-Year Government of Canada Bond Futures Contracts	250 contracts
Options on Five-Year Government of Canada Bond Futures Contracts	250 contracts
Canadian Share Futures Contracts	100 contracts
All expiry months and excluding UDS strategies	
Equity and ETF Options	250 contracts
Currency Options	100 contracts
Index Options	50 contracts
Basis Trade on Close	
Futures Contracts on S&P/TSX and S&P/MX Indices	100 contracts
Canadian Share Futures Contracts	100 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 a committed order with no delay, subject to the conditions in paragraph (c) of this Article, or

(ii) in the case of a prearranged Transaction that is on or between 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).

(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, 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).

[...]

6.308 Minimum Price Increment

The minimum price increments are as follows:

(a) For equity Options excluded from the penny trading program:
(i) Option series priced below $0.50 are quoted in increments of $0.01; and
(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; and
(ii) Option series priced at $3.00 or more are quoted in increments of $0.05.

(c) For ETF Options excluded from the penny trading program:
(i) Option series priced below $0.50 are quoted in increments of $0.01; and
(ii) Option series priced at $0.50 or more are quoted in increments of $0.05.

(d) For ETF Options included in the penny trading program, all Series of Options are quoted in increments of $0.01, regardless of price level.

(e) For Index Options, all Series of Options are quoted in increments of 0.01 Index point, regardless of price level.

(f) For Futures Options, all Series of Options series are quoted in increments of 0.001 point, regardless of price level.

(g) For currency Options, all Series of Options are quoted in increments of CAN 0.01 cent per unit of foreign currency.

[...]

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.

[...]

11.505 Minimum Fluctuation of Option Premium

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

(a) For exchange-traded fund 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 exchange-traded fund Options included in the penny trading program, all Option Series are quoted in increments of $0.01, regardless of the Premium level.