CIRCULAR 200-20
November 20, 2020

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. REGARDING TRADE CANCELLATION AND/OR PRICE ADJUSTMENT

On November 4, 2020, the Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse"**) approved amendments to article 6.210 of the Rules of the Bourse pertaining to the trade cancellation and price adjustment. These amendments are being sought in order to provide more transparency to the Bourse's market participants regarding the time permitted for the Bourse to make a trade cancellation or adjustment and to align the no-review range parameters of some of its instruments with other global exchanges.

Comments on the proposed amendments must be submitted at the latest on **December 21, 2020**. Please submit your comments to:

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

M[e] 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 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).

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. REGARDING TRADE CANCELLATION AND/OR PRICE ADJUSTMENT

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I. DESCRIPTION

Bourse de Montreal Inc. (the “Bourse”) is hereby proposing to modify article 6.210 pertaining to the trade cancellation and price adjustment. These amendments are being sought in order to provide more transparency to the Bourse’s market participants regarding the time permitted for the Bourse to make a trade cancellation or adjustment and to align the no-review range parameters of some of its instruments with other global exchanges.

The Bourse’s Market Operations Department (“MOD”) is at the forefront of assuring the validity of all entered orders. The reliance on a dependable and coherent no-review range is instrumental in the Bourse’s goal to drive home the importance of balancing customer service excellence while maintaining rigorous compliance and monitoring measures.

In addition to the current developmental work that the Bourse is conducting in upgrading its surveillance tools and strengthening its reference price model, the review of the trade cancellation procedures was deemed to be of timely importance and an effective response to feedback received from market participants.

The Bourse strongly believes that these amendments are steadfast in promoting the market’s orderly operation while maintaining sound and consistent standards that makes the Bourse a leader in market integrity.

II. PROPOSED AMENDMENTS

The proposed amendments are attached.

III. ANALYSIS

a. Background

The speed and efficiency through which investments can be executed through electronic trading systems provide many benefits. In many markets, electronic exchanges facilitate a greater number of market participants than do other trading exchanges. The greater the number of market participants, the greater the market's liquidity. In liquid markets, costs are driven down by competition; prices reflect a consensus of what an investment is worth; and the trading systems provide a free and open dissemination of information.

While speed and efficiency of many electronic markets can enhance a market participant's wealth, these same qualities can increase the adverse effect of a trade that is executed in error. Specifically, orders executed at prices substantially away from a market price can cause other market participants both in their derivative markets and in related underlying markets to make unsound decisions. In futures markets these errors can induce buyers and sellers in that market, in a related derivative market, and/or in an underlying cash market to make unsound decisions. The harmful effect of an erroneous trade can extend well beyond the market participants of that trade by affecting the integrity of the entire market and other markets. Furthermore, undetected erroneous trades may have a lasting impact on historical price information and various technical charting strategies used by market participants.

To mitigate these harmful effects, exchanges have adopted policies and procedures that, in appropriate cases, permit the cancellation or adjustment of a clearly erroneous trade. Some of these exchanges attempt a prompt resolution of a trade error by establishing a narrow timeframe within which a party may request that a trade be cancelled or amended. To assure that only erroneous trades that may significantly affect other market participants are the only trades subject to cancellation, some Exchanges adopted a "no-review range", formerly known as a "no-bust range". Trades executed within this no-review price range may not be subject to cancellation, even if executed in error to avoid penalizing the innocent traders that lack notice.

The Bourse has worked diligently over the past decade to implement stringent trade cancellation and adjustment policies, yet flexible enough to accommodate the necessities of all parties. As a result of recent queries and feedback obtained from various market participants, the Bourse determined that it was an appropriate time to review their standards.

In conjunction with rule change objectives proposed in the following section (section b), the Bourse is working on related projects that will improve the surveillance tools the MOD relies on for alerting them of possible trade errors. Furthermore, a new reference price model is being developed to produce more reliable settlement prices on illiquid products via our theoretical price calculations. Finally, the Bourse's daily settlement procedures are being refined to produce the most effective, transparent and accurate settlement price possible. As a result, the MOD will benefit from these enhancements in their daily application of the trade cancellation and adjustment procedures.

b. Objectives

The objectives behind the proposed modifications are two-fold: a) Bring clarity and transparency to the time allowed to Bourse officials, within its Rules, to cancel or adjust a trade, whether of its own volition or requested by its market participants; and b) verify No-Review range increments to ensure they are aligned with the standards established by global exchange peers and respond to market participants expectations whilst maintaining rigorous monitoring and compliance measures.

a) Market participants have expressed their wish for more clarity within the Rules of the Bourse regarding the amount of time allocated to officials of the Bourse to inform them of a trade's cancellation or adjustment. Participants abhor unexpected surprises that could leave them exposed to unnecessary market risks as a result of a trade cancellation or adjustment which did not allow them the time to hedge these risks.

   Although article 6.210 (g) states that "t*he Bourse shall endeavor to determine to adjust or cancel a Trade within 30 minutes following a request to review the Trade, or, as applicable, notice to the market that a Trade or Trades were being reviewed",* it lacks the clear guarantee of an imposed time limit to make such decisions. Global exchanges have included clear time constraints to be respected by both their own market officials and participants within their rules for reporting an issue, reviewing a trade and bringing forth a decision.

Additionally, exchanges such as Nasdaq have implemented an appellate process for customers who might be dissatisfied with market officials' decision and wish to obtain cause by having a panel consisting of exchange personnel, non-affiliated to Market Operations, have a second look at the initial outcome.

As stated in the proposed amendments, the Bourse believes that further refinement of its current time allowances to cancel or amend a trade will assuage its market participants' concerns and eliminate any uncertainties they might have over the unexpected removal or modification of their original trade.

b) The following No-Range increments would be modified:

Futures Contracts on S&P/TSX and S&P/MX Indices and on the FTSE Emerging Markets Index

- Regular strategy orders and Basis Trade on Close (BTC)

Current: 5% of the increments for the outright month

The limit is deemed to be too tight by both Market Operations and Market Participants as it leads to many potential unnecessary adjustments versus other No-Review range parameters from global exchanges that offer BTIC on similar products.

Ex: SXF DEC2020 = 960.00
No Review range for outright = 1% (960.00) = 9.60
No Review range for BTIC = 5% (9.60) = 0.48

Proposed: 0.25% of the acceptable market price of these Futures Contracts

This change would replicate the ratio between BTIC and outright contract parameters evidenced on the CME.

Ex: SXF DEC2020 = 960.00
No Review range for BTIC = 0.25% (960.00) = 2.40

Canadian Shares futures Contracts

- Regular strategy orders

Current:
1. 0.12$, if the acceptable market price of these Futures Contracts is less than 25$;
2. 0.25$, if the acceptable market price of these Futures Contracts is equal to or higher than 25$ but less than 100$;
3. 0.25% of the acceptable market price of these Futures Contracts if the acceptable market price of these Futures Contracts is equal to or higher than 100$.

These increments are not aligned with those for regular Share Futures orders and BTC. Share Futures typically trade by appointment; thus it was concluded that the current increments are too low when compared with Equity Option ranges. Equity options have the advantage of market makers and the smallest increment is 0.25. Upon conducting our reviewing exercise, the rationale to have a tighter range on an opaque product at best versus a transparent market lost its value.

Proposed: All increments involving Canadian Share Futures trades would be identical.

Canadian Share Futures Contract;: Canadian Share Futures Basis Trade on Close; Canadian Share Futures Regular strategy orders	1. 0.50$, if the acceptable market price of these Futures Contracts is less than 25$;
	2. 1.00$, if the acceptable market price of these Futures Contracts is equal to or higher than 25$ but less than 100$;
	3. 0.25% of the acceptable market price of these Futures Contracts if the acceptable market price of these Futures Contracts is equal to or higher than 100$.

c. Comparative Analysis

Our review of global exchanges trade and cancellation rules, policies and procedures have pinpointed the following similarities and differences with the Rules of the Bourse:

- Time allowances for Exchange officials to make an ex-officio decision to cancel or adjust a trade varies:
    - CME[1] has an 8 minute window for participants or market officials to review a trade;
    - CBOE[2] has a limit of 8h30 ET the day after the trade execution for market officials to act, while participants have a maximum of 30 minutes after trade execution to request a review;
    - Eurex[3] does not specifically provide a time limit for ex-officio cancellations but their rules emphasize the immediate action of officials upon reception of a transaction which might be outside of their no-review range increments.

- Index Futures No-review ranges are very similar across global exchanges. For outright contracts, the only distinctions are that some exchanges (Bourse, Eurex) rely on a % of the futures price, while others (CME) have a fixed index point range. CME, like the Bourse, offers BTC on its index futures. The No-Review range for its BTC represents a 25% ratio of the outright requirement.

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[1] https://www.cmegroup.com/content/dam/cmegroup/rulebook/CME/I/5/5.pdf

[2] https://cdn.cboe.com/resources/regulation/rule_book/C1_Exchange_Rule_Book-Effective-October-7-2019.pdf

[3]

https://www.eurexchange.com/resource/blob/311224/27389e00fb3ff5e3e20e134c8ab62945/data/trading_conditions_en_2020_07_06.pdf

- Equity, ETF and Currency options, whether fixed or percentage-based, are similar across all global exchanges.

- Eurex, leading provider of share futures, has established a no-review range for its product that is based on 20% of the underlying price x specific % per each product (typically 5-7%). Once foreign exchange is taken into account, the differences are minimal between Eurex and the Bourse. There is a difference in how the Eurex treats share future strategy orders as their no-review range increments can be 100-125% of the regular share future contract range.

d. Analysis of Impacts

i. Impacts on Market

The proposed changes to Bourse rules should be welcomed by market participants who have requested more transparency regarding time allowances to notify them of changes made to their orders.

ii. Impacts on Technology

There is no impact on the technical systems of the Bourse.

iii. Impacts on regulatory functions

The proposed changes should have no impact on the activities of the Regulatory Division of the Bourse.

iv. Impacts on clearing functions

The proposed changes should have no impact on the activities of CDCC.

v. Public Interest

The alignment of the Bourse's no-review range increments with their global peers will be well received by customers and reduce unnecessary intervention by the Bourse's MOD in comparison to other exchanges. As such, the Bourse considers this initiative to be in the interest of the public.

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 rule modifications are attached.

Article 6.210 Trade Cancellation and or Price Adjustment

(a) In General. The Bourse may adjust Trade prices or cancel Trades when such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the Trading System. Notwithstanding any other provision of this Article, the Bourse may adjust Trade prices or cancel any Trade executed through the Trading System if the Bourse determines in its sole discretion that allowing the Trade to stand as executed may have a material, adverse effect on the integrity of the market or the market's orderly operation. The decision of the Bourse in such matters shall be final.

(b) Review of Trades, Requests for Review. The Bourse may review a Trade or Trades based upon its analysis of market conditions, including but not limited to market volatility, prices in related markets, or in response to a request for review of a specific Trade by an Approved Participant. An Approved Participant must request review of a Trade by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366 within 30~~15~~ minutes of execution; *provided however*, the Bourse, in its sole discretion, may extend the period in which an Approved Participant may request review of a trade up to one hour following execution in extraordinary circumstances.

(i) Notice to the Parties to the Transaction. Where the Bourse on its own analysis determines to review a Trade or Trades for adjustment or cancellation, or where an Approved Participant has requested review of a specific Trade and that Trade is outside of the No Review Range provided under paragraph g) of this Article, the Bourse will notify the parties to the Trade that the Trade or Trades are under review by the Bourse.

(ii) Price Adjustments and Cancellations Procedures. Upon making a determination to review a Trade, the Bourse shall, (1) determine, in its sole discretion, the acceptable marker price, and (2) apply the increments provided under paragraph h) in order to determine the limits of the No Review Range.

(c) Trade Price Inside the No-Review Range. If the Bourse determines that the Trade price is inside the No Review Range, the Bourse will notify the two Approved Participant counterparties to the Trade that the Trade shall stand as executed; *provided however*, the Bourse may cancel such a Trade within 15 minutes of the Trade's execution and within the trading session during which the Trade was executed (early, regular or extended), if both Approved Participant counterparties to the Trade voluntarily consent to cancellation of the Trade.

(d) Trade Price Outside the No-Review Range. If the Bourse determines that the Trade price is outside of the No-Review Range, the Bourse, after endeavoring to contact the Approved Participant counterparties, shall adjust the price to the limit of the No Review Range. The policy of the Bourse is to favor price adjustment as a remedy over Trade cancellation and to adjust Trades in order to minimize the impact for all market participants involved in the erroneous Trades and particularly those who had a regular order in the order book. However, the Bourse, in its discretion, may cancel a Trade rather than adjust the price if:

(i) both parties to the Trade can be contacted within a reasonable delay and agree to the cancellation of the Trade; and

(ii) neither party to the Trade is either an Approved Participant or the registered holder of a SAM ID.

(e) Implied Orders, Implied Strategy Orders. An order generated by the implied pricing algorithm (using regular orders) and registered in the order book by the Electronic Trading System will be considered by the Bourse as though it were a regular order entered into the Trading System by an Approved Participant.

(i) An implied or regular strategy Trade is considered by the Bourse, as being composed of two regular orders, one for each leg of the strategy Trade. If the erroneous Trade involves a linked implied order(s) and is priced outside the No Review Range, the initiator of the original error Trade will be responsible for the Trade resulting from the linked implied order(s).

(ii) The adjustment relating to an erroneous strategy Trade will equal at least the increment between the No Review Range and the traded price on one of the individual legs, and no more than the sum of each individual legs' increments.

(f) Stop Orders. Trades that have occurred as a result of "stop orders" in the Trading System being triggered by an erroneous Trade are also subject to cancellation by the Bourse acting in his or her sole discretion. The determination of the Bourse shall be final.

(g) Decision of the Bourse. Market Supervisors shall act as soon as possible after becoming aware of an erroneous Trade. If an error has not been reported to the Market Operations Department within 30 minutes by Approved Participants, or detected by Market Supervisors within 2 hours of execution, the Bourse retains the right to cancel the Trade, adjust the Trade price or refrain from acting. In no event shall the Bourse act later than 8:30 a.m. Eastern Time on the next trading day following the date of the Trade in question.~~The Bourse shall endeavor to determine to adjust or cancel a Trade within 30 minutes following a request to review the Trade, or, as applicable, notice to the market that a Trade or Trades were being reviewed.~~

(i) If the decision is to cancel the Trade, the Bourse will remove the Transaction as an executed Trade from the records of the Bourse. Upon cancelation of a Trade, the parties, if they choose, may reenter new orders into the Trading System.

(ii) If the Bourse determines that a Trade should not be adjusted or cancelled, the parties to the Trade shall not themselves decide to cancel it by making a position transfer through CDCC.

(h) No-Review Range. The Bourse will determine the limits of the No-Review Range by determining what was the acceptable market price for the Derivative Instrument before the Trade under review occurred based upon all relevant information, including the last Trade price, a better bid or offer, a more recent price for a related Derivative Instrument (for example a different expiry month) and the prices of similar Derivative Instruments trading on other markets once the acceptable market price is established, the Bourse applies the following increments to determine the limits of the No-Review Range;

DERIVATIVE INSTRUMENT	**INCREMENT**
Three-Month Canadian Bankers' Acceptance Futures – BAX (all quarterly and serial months)	5 basis points
Three-Month Canadian Bankers' Acceptance Futures – BAX Strategies: - Regular strategy orders - Implied strategy orders	5 basis points Sum of the strategy's individual legs' increments
Options on Three-Month Canadian Bankers' Acceptance Futures	5 basis points
Two-Year Government of Canada Bond Futures (CGZ) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Five-Year Government of Canada Bond Futures (CGF) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Ten-Year Government of Canada Bond Futures (CGB) - Regular strategy orders	40 basis points 20 basis points
Thirty-Year Government of Canada Bond Futures (LGB) - Regular strategy orders - Implied Strategy orders	40 basis points 40 basis points Sum of strategy's individual legs' increments
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX and S&P/MX Indices and on the FTSE Emerging Markets Index - Regular strategy orders and Basis Trade on Close	1% of the acceptable market price of these Futures Contracts 0.25% of the acceptable market price of the Futures Contracts (outright instruments)~~5% of the increments for the outright month~~
One-Month CORRA Futures (COA) - Regular strategy orders - Implied Strategy orders	5 basis points 5 basis points

DERIVATIVE INSTRUMENT	INCREMENT
	Sum of the strategy's individual legs' increments
Three-Month CORRA Futures (CRA) - Regular strategy orders - Implied strategy orders	5 basis points 5 basis points Sum of the strategy's individual legs' increments
Futures and Options on Futures Inter-Group Strategies: - Regular strategy orders - Implied Strategy orders	Sum of strategy's individual legs' increments
Equity, Currency, ETF and Index Options Price ranges: Below $2.00 $2.00 to $5.00 Above $5.00 to $10.00 Above $10.00 to $20.00 Above $20.00 to $50.00 Above $50.00 to $100.00 Above $100.00	 $0.25 $0.40 $0.50 $0.80 $1.00 $1.50 $2.00
Equity, Currency, ETF and Index Options Strategies: - Regular strategy orders - Implied strategy orders	Sum of the strategy's individual legs' increments
Canadian Share Futures Contracts ; and Canadian Share Futures Contracts: Basis Trade on Close (including regular strategy orders)	1. 0.50$, if the acceptable market price of these Futures Contracts is less than 25$; 2. 1.00$, if the acceptable market price of these Futures Contracts is equal to or higher than 25$ but less than 100$; 3. 1% of the acceptable market price of these Futures Contracts if the acceptable market price of these Futures Contracts is equal to or higher than 100$.
~~Canadian Shares futures Contracts~~ ~~- Regular strategy orders~~	~~1. 0.12$, if the acceptable market price of these Futures Contracts is less than 25$;~~ ~~2. 0.25$, if the acceptable market price of these Futures Contracts is equal to or higher than 25$ but less than 100$;~~ ~~3. 0.25% of the acceptable market price of these Futures Contracts if the acceptable~~

DERIVATIVE INSTRUMENT	INCREMENT
	~~market price of these Futures Contracts is equal to or higher than 100$.~~

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2020.01.30, 2020.06.12