

TO: Montréal Exchange (MX) Participants
FROM: Market Access Manager
OBJECT: **Implied Pricing on BAX Strips**
DATE: October 31, 2014

On December 12, 2014, as part of its market evolution strategy, the Montréal Exchange will activate the implied pricing ("IP") algorithm on BAX Strip strategies. The introduction of IP on BAX Strip strategies will facilitate the interaction of the futures contract underlying and their respective strategies in the central limit order book (CLOB). This will benefit market quality by adding another layer of displayed liquidity

A BAX Strip is the simultaneous purchase or sale of an equally weighted series of BAX futures contracts. This is quoted on an "average net change" basis from the previous day's settlement price. All contracts in the BAX Strip are traded at the same time in a single transaction. The three years of quarterly BAX expirations provide market participants with five standardized strips – a 1-year strip, a 2-year strip, a 3-year strip, a red strip and a green strip.

The implied pricing algorithm will generate IP orders on the BAX Strip based on its outright or underlying contracts. The IP algorithm will also generate IP orders on the outright or underlying contracts of BAX Strip orders (implied in and implied out).

Example:

A front four quarterly BAX White Strip, is calculated using the IP derived from outright or underlying BAX contracts.

CONTRACT	BID SIZE	BID PRICE	ASK PRICE	ASK SIZE	SETTLEMENT PRICE	NET CHANGE BID	NET CHANGE ASK
BAXZ14	150	98.75	98.755	250	98.73	+0.02	+0.025
BAXH15	300	98.765	98.77	350	98.72	+0.045	+0.05
BAXM15	275	98.74	98.745	325	98.69	+0.05	+0.055
BAXU15	175	98.715	98.72	415	98.66	+0.055	+0.06
BAX STRIP (IP)	BID SIZE	BID PRICE	ASK PRICE	ASK SIZE	CALCULATED IMPLIED BID *	CALCULATED IMPLIED ASK*	
BAXZ1404	150	0.04	0.05	250	0.0425	0.0475	

* The implied dissemination through the HSVF datafeed will read BID 0.04 and ASK 0.05. The Calculated Implied Bid and Ask represent the average net change. Therefore, an inbound order to sell on the BAXZ1404 BID would result in a transaction with an average net change of 0.0425 and trade reported fills of BAXZ14-98.75, BAXH15-98.765, BAXM15-98.74, and BAXU15-98.715.

PARTICIPANT CONSIDERATIONS

- 1) A BAX Strip calculation is based on the previous day's settlement price and is valid for the full trading session. Therefore, orders executed after the settlement period, whether implied or not continue to be based on the previous day's settlement price and not the new settlement price.
- 2) Duration order types, such as GTC and GTD, will be accepted on BAX Strips and will not be automatically cancelled by the system at the end of the trading day. If the GTC or GTD order is matched on a subsequent day, the leg prices will be set according to the prevailing previous day settlement price at the time the order is matched, not the one that was in effect when the strategy order was originally entered.
- 3) It can no longer be expected that trades executed through a BAX Strip order will have the same variation on each leg component. The variation will be the same when an order trades against an opposing order, however the variation may be different on each leg component if the order trades against an implied price
- 4) For BAX Strip orders that trade implied, the trade price reported on execution notices on all post-trade feeds and reports at the strategy instrument level will be rounded to the nearest sub-penny value, therefore may not reflect the actual trade price with all decimals.

PROTOCOL IMPACTS

There is no impact on any of the protocols by this activation. The IP HSVF dissemination message will be identical to the message currently used for all other implied pricing enabled products.

CONTACT INFORMATION

Please contact the Technical Help Desk if you require additional information.

TECHNICAL HELP DESK	
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We thank you for your cooperation.

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