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CIRCULAR 035-16
March 23, 2016

REQUEST FOR COMMENTS

HOUSEKEEPING AMENDMENTS, NEW RULES AND RULES TO BE ABROGATED

INTRODUCTION OF ARTICLES 6024 AND 6376A IN THE RULES OF BOURSE DE MONTRÉAL INC.

AMENDMENTS TO ARTICLES 6392 AND 6633 OF RULE SIX OF THE BOURSE

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the introduction of articles 6024 and 6376A and amendments to articles 6392 and 6633 of the Rules of the Bourse, and the Special Committee of the Regulatory Division of the Bourse has approved the introduction of article 6024, in order to clarify the Rules and align the Rules with current Bourse practices.

Comments on the proposed amendments must be submitted at the latest on **May 23, 2016**. Please submit your comments to:

M^e Jean-Philippe Joyal
Legal Counsel, Legal Affairs, Derivatives
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Québec H4Z 1A9
E-mail: legal@m-x.ca

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

M^c Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file.

Appendices

For your information, you will find in the appendices an analysis of the proposed amendments as well as the 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 determined 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 and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the *Derivatives Act* (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.

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



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I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) has undertaken a project to update and modernize its Rules. This project seeks to review the structure of the Rules, unify procedures into the Rules, remove outdated articles, align the Rules with current practices, and recommend substantive amendments as appropriate to adapt the Rules to the evolution of the market. The Bourse has identified a number of amendments which are intended either to update the Rules, align the Rules with current practices or to implement best practices. The proposed amendments are based on benchmarking with the rules and practices of other exchanges. In addition, the Bourse has sought preliminary and informal comments from industry and regulatory stakeholders before drafting the proposed amendments.

II. ANALYSIS

a. Background

The initial step of this project was to create an internal Working Group to discuss and issue recommendations on the scope of the project and to identify particular articles that needed to be amended or modernized. In the course of its deliberations, the Working Group identified a number of articles and issues to be addressed. Amendments were grouped for consideration in three categories: Trade Execution, Trade Practices and General Rules. This document discusses amendments relating to General Rules. Each of the proposed amendments is analyzed separately below, with additional detail included in the Appendixes.

b. Description and Analysis of Market Impacts

New article 6024 (Suspension of trading)

Article 6024 will authorize the Bourse, through the Vice President of the Regulatory Division, to take summary action to suspend the trading privileges of an approved participant and cancel pending orders with regard to certain products upon the suspension or default of its clearing approved participant. This article will also provide the circumstances under which the trading privileges of an approved participant may be reinstated. This proposed rule will ensure that the Bourse is able to take timely action in the event that an approved participant’s clearing member is no longer able to guarantee such trades. The ability to act promptly in this type of scenario lowers the possibility or degree of possible market disruption.

New article 6376A (Open or close transaction indication)

Article 6376A will clarify the instances where the use of the open/close indicator field at the input of order is mandatory. Such indication will be mandatory under certain circumstances such as trading for liquidation or when the approved participant is subject to an order from the Bourse to reduce positions. By making the inclusion of this indicator permissive at all other times, the Bourse

will reduce the possibility of approved participants inadvertently violating a reporting requirement that is relevant only in those instances when it is being required.

Article 6392 (Opening Time)

Article 6392 provides that the opening of trading for various types of trading strategies may be no earlier than the opening for the Listed Product. The proposed amendment to article 6392 updates the rule to bring it into alignment with current practice on the Bourse by replacing the words “*spread or strip*” with “*strategy*.” to provide for a broader application of the article.

Article 6633 (Members’ Responsibility on Spread Orders)

It is proposed to repeal article 6633 because it addresses conditions as they existed prior to electronic trading.

c. Comparative Analysis

Please see Appendix 1 which provides further details on other exchange’s practices and the benchmarking made by the Bourse.

d. Proposed Amendments

Please see Appendix 2 for the proposed amendments to the aforementioned articles.

III. AMENDMENT PROCESS

The Bourse undertook this project to align its Rules with international best practices and provide its clients with more certainty with regard to its regulations. Prior to undertaking these amendments, the Bourse consulted informally with market participants’ associations and the Autorité des Marchés Financiers to receive their preliminary comments on the proposed amendments.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

None of the proposed amendments has an impact on the technological systems of the Bourse or those of its approved participants.

V. OBJECTIVES OF THE PROPOSED ADMENDMENTS

The proposed amendments seek to:

- Provide greater clarity for market participants;
- Provide greater legal certainty to market participants as to various permitted and prohibited practices;
- Simplify the Rules by incorporating now separate Procedures and Policies into the Rules;
- Align the Rules with current Bourse practices;

- Align the Rules with other exchanges' practices as appropriate; and
- Modernize the language of the Rules.

In striving to achieve these goals, the work of the Regulatory Division in enforcing current exchange rules was considered. Providing greater clarity as to trading requirements and ensuring that the Rules are in alignment with market practice also assists the Regulatory Division in its mission.

VI. PUBLIC INTEREST

It is in the public interest that the Rules of the Bourse be clear and provide certainty to market participants regarding its application. The proposed amendments aim at making the Rules more transparent and ensuring there is no ambiguity in the application thereof. These amendments, clarifications and updates should also assist in the enforcement of the Rules. Other of the amendments are intended to bring market practice in alignment with international best practices. This should create greater uniformity of practice for market participants, increasing the commercial utility of certain trading mechanisms and assisting in their compliance efforts.

VII. EFFICIENCY

The proposed amendments which are mainly clarifying in nature may also enhance market efficiency by removing uncertainty as to the acceptability of various practices.

VIII. PROCESS

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

IX. ATTACHED DOCUMENTS

- Appendix 1: Recommendations and benchmarking;
- Appendix 2: Proposed amendments.

MX RULE ANALYSIS, BENCHMARK REVIEW AND RECOMMENDATION

Category 3 – Housekeeping, New Rules, Rules to be Abrogated

Rule	Issue	Current Rule Text¹	Recommendation	Benchmarking
New rule needed		N/A	Additional rule needed providing that an AP is automatically suspended from access for all trading upon the suspension of its Clearing Member; such AP may be reinstated upon 1) reinstatement of CM or 2) AP establishing a relationship with new CM in good standing.	N/A
New rule needed		N/A	Specify authority of Market Operations to cancel Orders prior to execution, such as for example, when access is suspended to the AP due to suspension of the AP's Clearing Member, or in the case of the bankruptcy of the AP.	N/A
6376, 7467 Input of Orders: Definitions.	Tag positions as open/closed? Currently the language of the rules is ambiguous and market practice is not consistent. On a practical level, the open/close indicator is primarily relied upon by Surveillance at clearing level. However, it is necessary for Market Operations in certain cases, such as trading for liquidation only.	See below.	Despite the infrequency that this information is needed at the exchange, the rule through its ambiguity opens the possibility for possible unintentional violations. In order to strike the appropriate balance, we recommend adopting specific rule addressing this requirement providing as follows: Exchange has provided an open/closed indicator field. It is mandatory to use it in the following cases: default and corporate action for equity options. It is permissive for members to make use of that field in their own discretion in all other cases.	N/A
6633 Member's Responsibility on Spread Orders:	All spreads are traded in order book as a separate stack. Is the rule any longer viable?	6633 Members' Responsibility on Spread Orders (10.11.92) Members shall not be held responsible for the execution of a spread order based upon prices that are established at the opening or closing or during any trading rotation.	This rule addresses conditions as they existed prior to electronic trading and is an anachronism. We recommend abrogating Rule 6633.	N/A

¹ If not included in the table, the full text of each relevant current rule is set forth at the bottom of the respective table.

Rule	Issue	Current Rule Text ¹	Recommendation	Benchmarking
<p>6392(b)</p> <p>Opening Time: Have a broader interpretation of strategy to include more than spreads and strips.</p>	<p>Issue: use “strategy,” not just spreads or strips.</p>	<p>6392 Opening Time (25.09.00, 24.09.01, 29.10.01)</p> <p>a) In the case where the underlying interest has not opened in a reasonable time, a Market Supervisor may postpone the opening of a derivative instrument.</p> <p>b) Opening time for a spread or strip should not be earlier than the underlying product.</p>	<p>We recommend to make this straightforward revision as follows:</p> <p>b) Opening time for a <u>strategy spread or strip</u> should not be earlier than the opening time for the underlying product.</p>	<p>N/A</p>

6376 Order Identification

(25.09.00, 24.09.01, 29.10.01, 01.04.04)

Approved participants must ensure the proper identification of orders when entered into the trading system in order to ensure compliance with the provisions of article 6374 regarding management of priorities.

- a) “Order for the account of a customer” means an order for a security or a derivative instrument entered for the account of a customer of any approved participant or of a customer of a related firm of an approved participant, but does not include an order entered for an account in which an approved participant, a related firm of an approved participant, a person approved by the Bourse or a restricted trading permit holder has a direct or indirect interest, other than an interest in a commission charged;
- b) “Order for the account of a professional” means an order for a security or a derivative instrument for an account in which

a director, officer, partner, employee or agent of an approved participant or of a related firm of the approved participant, a person approved by the Bourse or a restricted trading permit holder has a direct or indirect interest, other than an interest in a commission charged. The Bourse may designate any order as being an order for the account of a professional if, in its opinion, circumstances justify it;

- c) “Order for the account of the firm” means an order for a security or a derivative instrument for an account in which the approved participant or a related firm of the approved participant has a direct or indirect interest, other than an interest in a commission charged;
- d) “Order for an insider or significant shareholder” means an order for a security or a derivative instrument for the account of a client, a professional or a firm who is an insider and/or

significant shareholder of the issuer of the underlying security which is the subject of the order. If such client, professional or firm is both an insider and a significant shareholder, the significant shareholder designation must be used.

For the purposes of this article :

“insider” means a person who is an insider, pursuant to applicable securities legislation, of the issuer of the security underlying the security or the derivative instrument traded; “significant shareholder” means any person holding separately, or jointly with other persons, more than 20 per cent of the outstanding voting securities of the issuer whose security is underlying the security or the derivative instrument traded. “related firm” has the meaning given to that term in the definitions in article 1102 of the Rules of the Bourse.

6379 Input of Orders

(25.09.00, 24.09.01, 29.10.01, 01.04.04)

Except as provided in paragraph b) of article 6375, the market orders and limit orders are entered into the trading system and presented to the market without delay in accordance with the chronology of their receipt. The other orders are presented to the market as soon as their time limit or triggering limit is reached.

Any order which is entered into the trading system must indicate if the order is for the account of a firm, of a client or of a professional, as these terms are defined in article 6376. In addition, if the order is for the account of an insider or of a significant shareholder, as these terms are defined in article 6376, it must be identified as such. When these conditions are fulfilled, the input in the system triggers the recording of the order. Should

the final receiver fail to be identified directly in the system, a time-stamped recording in accordance with article 6377 of the Rules must be completed.

If a chronological ranking of receipt cannot be established between many orders, the client priority rules of article 6374 of the Rules apply.

7467 Keeping Records of Orders

(08.09.89, 01.04.93, 02.07.96, 13.09.05, 22.03.10)

1) Every approved participant must maintain books and records necessary to record properly its trading activities in derivative instruments listed on the Bourse, including, without limitation:

a) Records containing an itemized daily record of all orders and trades in derivative instruments. Such records must contain the following information for each such order or transaction:

In the case of trades in all derivative instruments;

- i) the identity of the client for whom or the account for which the order was received;
- ii) the date and time on which the order was received;
- iii) the identity of the person who received the order;
- iv) the class and designation of the derivative instrument;
- v) the expiry or delivery month and year of the derivative instrument;
- vi) the date and time on which the order was entered into the electronic trading system of the Bourse;
- vii) whether it is an opening or closing transactions;
- viii) the terms and conditions of the order, of any instruction and of any modification or cancellation thereof;
- ix) where the order is entered pursuant to the exercise of discretionary power of an approved participant, an indication to that effect;

x) where the order relates to a fully disclosed introduced account or a fully disclosed omnibus account, the component accounts within the introduced or omnibus account on whose behalf the order is to be executed, and the intended allocation among the component accounts once the order has been executed;

xi) where the order relates to managed accounts, the component accounts on whose behalf the order is to be executed, and the intended allocation among these component accounts once the order has been executed;

xii) where the order or instruction is placed by an individual other than;

A) the person in whose name the account is operated, or

B) an individual duly authorized to place orders or instructions on behalf of a customer that is a company,

the name, the number or the designation of the individual placing the order or instruction;

xiii) the date and time on which the order was modified, executed or cancelled. If executed in more than one transaction, the date and time of each transaction executed to complete the order;

xiv) the number of derivative instruments bought or sold. If the order has been executed in more than one transaction, the number of derivative instruments bought or sold for each transaction;

xv) if the person who executed the order is not the person who received it, the identity of such person;

xvi) if the order was executed by another approved participant acting as an executing broker for the approved participant, the identity of such other approved participant.

In the case of futures contracts,

xvii) the price at which the futures contract was entered into.

In the case of options contracts,

xviii) the premium;

xix) the type of option (put or call);

xx) the strike price.

b) Derivative instruments records showing separately for each derivative instrument as of the trade date all long positions or short positions in such derivative instrument carried for the approved participant's account or for the account of customers and, in all cases, the name or designation of the account in which each position is carried.

2) All records of filled and unfilled orders, executed transactions and carried positions must be retained for a period of seven (7) years.

3) The Special Committee may grant exemptions from all or any part of the above requirements.

6024 Suspension of Trading and Cancellation of Orders

(00.00.00)

- a) A Clearing Approved Participant must notify the Vice President, Regulatory Division, telephonically and by electronic mail immediately upon suspending or terminating its clearing relationship with an Approved Participant.
- b) Upon being notified by the President or Chief Risk Officer of the Clearing Corporation that a Clearing Approved Participant has been suspended, terminated or become Non-Conforming as defined under Clearing Corporation Rules, the Vice President, Regulatory Division, acting solely in his or her discretion may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the trading system by the Non-Conforming Clearing Approved Participant for itself or for the Approved Participants, and in respect of the particular Listed Products, that the Clearing Approved Participant clears.
- c) Upon being notified by a Clearing Approved Participant as provided in paragraph a) that it has suspended or terminated its clearing relationship with an Approved Participant, the Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the trading system by or for the Approved Participant in respect of the particular Listed Products cleared by the notifying Clearing Approved Participant.
- d) The Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Division to reinstate access to the trading system:
 - i) for a suspended, terminated or Non-Conforming Clearing Approved Participant (and the Approved Participants for which it clears) upon notification by the President or the Chief Risk Officer of the Clearing Corporation that the Clearing Approved Participant has been reinstated and is in good standing; or
 - ii) for an Approved Participant, upon notification by a Clearing Approved Participant in good standing that it has established a clearing relationship with the Approved Participant.
- e) The Vice President, Regulatory Division, may make the decisions under this article acting in his or her sole discretion. However, nothing in this article precludes the Vice President, Regulatory Division from consulting any other official of the Bourse in making the decisions under this article or in submitting such decisions to the Special Committee for a determination.

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- c) Upon being notified by a Clearing Approved Participant as provided in paragraph a) that it has suspended or terminated its clearing relationship with an Approved Participant, the Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the trading system by or for the Approved Participant in respect of the particular Listed Products cleared by the notifying Clearing Approved Participant.
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 - i) for a suspended, terminated or Non-Conforming Clearing Approved Participant (and the Approved Participants for which it clears) upon notification by the President or the Chief Risk Officer of the Clearing Corporation that the Clearing Approved Participant has been reinstated and is in good standing; or
 - ii) for an Approved Participant, upon notification by a Clearing Approved Participant in good standing that it has established a clearing relationship with the Approved Participant.
- e) The Vice President, Regulatory Division, may make the decisions under this article acting in his or her sole discretion. However, nothing in this article precludes the Vice President, Regulatory Division from consulting any other official of the Bourse in making the decisions under this article or in submitting such decisions to the Special Committee for a determination.

6376A Opening or Closing Transaction Indicator Field

(00.00.00)

The Bourse has provided an open/closed indicator field at the input of orders which:

a) shall be included in the submission of each order entered into the trading system by an Approved Participant in the following circumstances:

i) the order is entered for the account of an Approved Participant or its customer who is in default or is otherwise ordered to trade for liquidation only;

ii) the order is entered for the account of an Approved Participant or its customer who has been ordered to reduce positions by the Bourse;

iii) the order is for an equity option that is the subject of a trading restriction or other limit due to a corporate action in the underlying security;

iv) the Approved Participant, its client, or the market generally is subject to an order of the Bourse to trade for liquidation only; or

b) may otherwise be used by Approved Participants in the submission of orders in their own discretion.

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 - iv) the Approved Participant, its client, or the market generally is subject to an order of the Bourse to trade for liquidation only; or
- b) may otherwise be used by Approved Participants in the submission of orders in their own discretion.

6392 Opening Time

(25.09.00, 24.09.01, 29.10.01, 00.00.00)

- a) ~~In the case where the~~ Whenever trading in an instrument underlying ~~interests~~ Listed Product has not opened ~~in a reasonable time~~, a Market Supervisor may postpone the opening of ~~a derivative instrument~~ trading in the Listed Product accordingly.
- b) ~~Opening~~ The opening time for a ~~spread or strip should~~ trading strategy shall not be earlier than the ~~underlying product~~ opening of trading in the Listed Products that are the components of such strategy.

6392 Opening Time

(25.09.00, 24.09.01, 29.10.01, 00.00.00)

- a) Whenever trading in an instrument underlying a Listed Product has not opened, a Market Supervisor may postpone the opening of trading in the Listed Product accordingly.
- b) The opening time for a trading strategy shall not be earlier than the opening of trading in the Listed Products that are the components of such strategy.

6633 Members' Responsibility on Spread Orders
(10.11.92, abr. 00.00.00)

~~Members shall not be held responsible for the execution of a spread order based upon prices that are established at the opening or closing or during any trading rotation.~~

6633 Members' Responsibility on Spread Orders
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