



**TO: Approved Participants
Registered Options Principals
Options Traders
Futures Contracts Principals
Futures Traders
Restricted Trading Permit Holders**

April 3, 2002

**MODIFICATIONS TO THE PROCEDURES
APPLICABLE TO THE EXECUTION OF CROSSES**

We wish to inform all approved participants that Bourse de Montréal Inc. has modified its procedures applicable to the execution of crosses for futures and options on futures. Approved participants will now be allowed to execute crosses on futures and options on futures contracts provided the quantity of the trade is above the eligible portion established by the Bourse.

Effective April 8th, 2002, the eligible portion for the **Standard & Poor's Canada 60 Index Futures (S&P 60) – SXF** will be **100 contracts**.

Please note that the eligible portions applicable to other futures and options on futures contracts have not been established. Accordingly, approved participants must continue to ensure that they allow a reasonable amount of time (currently at least 15 seconds) between the input of the buy and the sell orders when they have both sides of the transaction in hand.

The procedures will be modified from time to time in order to take into account the evolution of the trading environment and operational practices. Bourse de Montréal Inc. will issue a circular each time an eligible portion will be established or modified for a product.

For additional information, please communicate with Richard Bourbonnière, Vice-President - Market Operations, at (514) 871-3548.

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General Counsel and Secretary

Circular no.: 040-2002

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PROCEDURES FOR THE EXECUTION OF CROSSES ON SAM

1. APPLICABLE RULE

“6380 Crosses

- a) Where an approved participant or a restricted permit holder has a buy and a sell order at the same price, he may cross in whole or in part the eligible portion while complying with the priority of bids and offers.
- b) Unless an approved participant has completed a cross as mentioned in paragraph a), after the input of an order, it is forbidden to input an opposite side order which could be immediately executed in whole or in part with the first one without leaving between the two inputs the prescribed delay allowing the market to declare its interest. The delay between the two inputs for derivative instruments traded on the Bourse will be determined by the Bourse periodically to reflect market conditions.”

2. SUMMARY

For futures contracts and options on futures contracts, two orders from the same market participant at the same price and for the same quantity can be entered simultaneously into the Montreal Automated Trading System (SAM) while complying with the priority of bids and offers, and if the quantity is above the eligible portion established by the Bourse periodically to reflect market conditions.

For equity options and index options, simultaneous entry is allowed if the quantity of the orders is above an eligible portion. The eligible portion is presently established by the Bourse at 50 contracts for index options and at 100 contracts for equity options.

3. OBJECTIVES

The objectives of the crossing procedures described herein are:

- Ensure that a cross trade is executed at a price at which there are no other market participants who are willing to trade any or all of the order at a better price;
- When applicable ensure that all market makers are informed of such a trade prior to its execution and have the opportunity to participate.



4. DESCRIPTION

4.1. Futures contracts and Options on Futures contracts

Market participants are responsible to ensure that they allow an amount of time (the time is determined by the Bourse periodically to reflect market conditions, currently 15 seconds for futures) between the input of a buy and sell order, when the market participant has both sides in hand (client side must be entered first into SAM).

Notwithstanding the above, market participants can cross orders on contracts that have a quantity above the eligible portion established by the Bourse periodically to reflect market conditions and while complying with bids and offers.

Eligible portions by product will be modified from time to time in order to take into account the evolution of the trading environment and operational practices. A circular will be sent indicating the eligible portions every time a modification or addition has been made.

If a market participant has a cross order between the bid and ask that is above the eligible portion established for the contract he can;

- A.) contact the Market Monitoring Department at (514) 871-7871 which will enter the order manually into SAM, until a specific system function is made available
- B.) enter one side of the order and instantaneously trade against it if he wishes that the trade be executed directly on the market (with the possibility of execution risk).

4.2. Equity Options contracts, Index Options contracts and Bond Options contracts

If the intended cross price is on or outside the derivative instrument's current best bid or ask, the market participant is responsible for filling all existing orders on the central order book (regardless of type of orders) which are at limit prices better than or equal to the cross price. Hidden quantity orders (not applicable to equity options for which hidden quantity is not a valid order type) on the central order book better than or equal to the cross price must also be filled.

A. Procedures for crossing with no guaranteed minimum cross volume:

- The market participant must issue a Request For Quote (RFQ) for the total intended cross volume;
- The market participant must fill orders on the book that are equal to or better than the cross price. Hidden quantity orders (not applicable to equity options for which hidden quantity is not a valid order type) on the central order book better than or equal to the cross price must also be filled;

- The market participant must fully expose one side of the order (client side) to the market for a minimum of 30 seconds for equity options and 15 second for index options (market participants are not permitted to use hidden (not applicable to equity options for which hidden quantity is not a valid order type) quantity functionality when executing crosses.);
- After 30 seconds for equity options contracts or 15 seconds for index options contracts the market participant must cross any remaining balance by entering the other side of the transaction. There is no guarantee of any minimum cross volume.

B. Procedure for crossing with a 50% guaranteed minimum for orders equal to or greater than 50 contracts for index options and 100 contracts for equity options (applied to the residual quantity – described below):

- *Note that the 50% guarantee applies only if the residual quantity (described below) is equal to or greater than the eligible portion (50 contracts for index options and 100 contracts for equity options);*
- *The market participant must contact a Market Supervisor at 1-888-693-6366 and provide details of the intended cross: total quantity (must be equal to or greater than the eligible portion), price, side that is client. In the case where both sides of the cross are clients, the market participant should confirm this to the Market Supervisor.*
- *As noted above, the market participant is responsible for filling all existing disclosed orders on the central order book (regardless of type of orders) which are at limit prices better than or equal to the cross price. This must also include hidden orders (not applicable to equity options for which hidden quantity is not a valid order type) better than the cross price. A Market Supervisor will ensure, in combination with the market participant, that this requirement has been met;*
- *The residual quantity is the volume of the cross remaining after orders on the book with limit prices better than or equal to the cross price are filled. In the case where no orders had to be filled, the residual quantity is equal to the original cross volume.*

If the residual quantity is less than the eligible portion, market participants must follow the procedure for crossing with no minimum guaranteed volume, described in section A, and issue a Request For Quote before fully exposing one side of the residual quantity to the market for a minimum of 15 seconds.

- *If the residual quantity to be crossed is equal to or greater than the eligible portion, a Market Supervisor contacts the market makers and informs them of half the residual quantity of the cross and the limit price. In the case where only one side of the cross is a client order, the client side will be exposed to the market makers. In the case where both sides are client orders, the Market Supervisor will expose the cross to the market makers at the cross price; the market*



makers may intervene on either side of the cross trade up to a total maximum quantity of 50% of the residual quantity:

- o Market makers will be permitted to participate up to a total maximum of 50% of the residual quantity of the intended cross¹*
- o If total market makers participation is less than the 50% of the residual quantity shown to them, a Request for Quote must be issued and this remaining quantity must be put on the central order book for 15 seconds*

- The market participant will be able to cross the remaining quantity (a minimum of 50% of the residual quantity, plus any amount not taken of the 50% shown to the market makers/market).

4.3.Sponsored Options

All sponsored options transactions are executed through the Montreal Automated System (SAM). Crosses are not allowed.

¹In the case where the total quantity requested by the market makers is equal to or less than the 50% shown, each will be filled entirely. If the total Market Makers' interest exceeds the amount they are shown, each will receive the lesser of (a) an equal portion or (b) their requested quantity. A market maker cannot increase an allocation quantity by proposing a price better than the cross price. A market maker's allocation will not take into consideration any previous executions made to fill existing orders in the book at prices equal to or better than the cross price.