NEW PRODUCTS: FUTURES CONTRACTS ON CARBON DIOXIDE EQUIVALENT (CO_2e) UNITS

Addition of new article 6815B to Rule Six and new articles to Rule Fifteen (Sections 15931-15950 and 15951-15970) of Bourse de Montréal Inc.; and

Amendments to articles 6005, 6801 to 6808, 6812, 6813 and 6815 of Rule Six and article 15001 of Rule Fifteen of Bourse de Montréal Inc.

I. Proposed Regulatory Amendments

Bourse de Montréal Inc. (the "Bourse") proposes to: (a) add new article 6815B to Rule Six of the Bourse and new articles to Rule Fifteen of the Bourse (new sections 15931-15950 and 15951-15970), and (b) amend articles 6005, 6801 to 6808, 6812, 6813 and 6815 of Rule Six and article 15001 of Rule Fifteen. All these additions and amendments to the Bourse's Rules will permit the listing and trading of futures contracts on carbon dioxide equivalent units (hereinafter "CO_2e futures contracts") on the Bourse's electronic trading platform.

II. Background

A. The Montréal Climate Exchange

The Montréal Climate Exchange (MCeX) is the product of an alliance between the Bourse and the Chicago Climate Exchange® (CCX) which combines environmental know-how with a trading and clearing infrastructure well established within a regulated market framework.

The Bourse will first implement a trading mechanism with which to meet the needs for reduction in greenhouse gas (GHG) emissions as determined by the federal government. Such a trading mechanism is commonly known as a "carbon exchange". Thereafter, it will focus on other air pollutant emissions reductions and other environmental issues.

In the event that the federal government establishes mandatory reduction targets, the MCeX will offer:

- A price discovery process which can generate the price signal so highly coveted by industrial companies; and
- Price risk management facilities through futures contracts.

The Bourse is bringing its values of transparency and security to this new market. The carbon exchange is likely to attract a large number of economic agents such as industries, investment banks and investors, thereby ensuring the liquidity of the CO_2e futures contract on the Canadian market.

B. The role of a carbon exchange

A carbon exchange is not an end in itself, but rather a mean to helping companies adjust to new environmental realities cost-effectively and motivating them to further reduce their GHG emissions. It is a powerful tool in the fight against climate change.

On the one hand, companies that need to adapt their GHG emissions reduction target to their economic reality and that cannot immediately meet such reduction target will be able to buy carbon dioxide equivalent units ("units") on the market to avoid government-imposed non-compliance costs, thus creating a market demand. The reduction target levels established by the government will impact the demand for or the scarcity of units, and ultimately, on their value.

On the other hand, as soon as an economic value will be attached to a reduction effort, companies will be encouraged to reduce their GHG emissions below the prescribed threshold by developing and using new technologies permitting such reductions or promoting energy-efficiency measures, given the possibility of financing their efforts through the sale of units thus creating the market supply.

It is this synergy between buyers and sellers, or between supply and demand, that will create a market and generate a price signal that will help companies achieve their GHG emissions reduction targets at minimum costs. This price signal coveted by industrial companies will allow them to evaluate their environmental costs, if they have to buy units, or the economic value they can obtain from the sale of such units to finance their GHG emissions reduction projects. In this way, the price signal from the market will encourage good environmental behaviour and have a positive ripple effect on GHG emissions reduction.

C. The role of the government

It is important to point out that the trading mechanism will be effective only if the market is extensive and competitive, that is, if there is a large number of buyers and sellers and if marginal GHG emissions reduction costs are not the same for all the companies. In this regard, the government has an important role to play in the trading synergy. On the one hand, it will impact demand by establishing regulated GHG emissions reduction targets and, on the other hand, it will impact supply by determining the units eligible for compliance. By adopting the Polluter Pays Principle and setting mandatory emissions reduction targets for the industrial sectors responsible for most of the GHG emissions, the government will create a scarcity effect and will thereby promote the creation of a carbon exchange.

D. The international experience

Numerous experiments have already been conducted worldwide regarding emissions trading systems, mainly related to reducing acid rain in North America and reducing GHG emissions in Europe. There is a current consensus around the world that by relying on market forces, it is possible to reduce GHG emissions cost-effectively, while, at the same time, promoting sustainable development.

The challenge for governments is to maintain a balance between environmental and economic considerations, hence the diversity of the terms and conditions of the national GHG reduction programs implemented worldwide. In fact, while the carbon market is becoming a reality more and more established around the world, with an estimated unit trading value of US$30 billion in 2006, three times higher than the previous year, the establishment of a unique carbon price is still a pipe-dream. Generally-speaking, the regional supply and demand synergy, that generates the price signal, is limited to the scope of regional compliance programs (i.e. Europe, Australia, Canada).

As an example, the price of one tonne of CO_2 for delivery in 2008 is approximately 21 € on the European market. On the other hand, on the voluntary Chicago Climate Exchange® in the United States, the price of a tonne of CO_2 is approximately US$3.

Only units traded as part of GHG emissions reduction projects carried out under the Kyoto Protocol in emerging countries such as China, India or Brazil are international in scope. The price of these units, for delivery in 2008, is approximately 17 € per tonne on the secondary markets like the Nordpool exchange in Europe.

In addition to the US$30 billion traded on carbon markets worldwide, large investment corporations also invested in 2006 close to US$70 billion in new innovative environmental projects. These investments were funnelled mainly into public, venture capital and private placement corporations or the financing of green technologies. Thus, the global carbon market is currently worth close to US$100 billion[1].

E. The Canadian reality

Currently, the energy sector, and more specifically power production, is the overriding determinant of GHG emissions. Coal-fired power stations generate approximately twice as many GHG emissions as gas-fired plants. Notwithstanding bituminous sand oil extraction, which is a major source of GHG, gas-fired plants are greater pollutant producers than hydro-electricity and nuclear energy plants. In such a context, the federal government decided to adopt intensity-based GHG emissions reduction targets, which aim at GHG emissions reduction performance, rather than absolute emissions reduction targets. These targets are designed to promote a balance between Canada's economic growth and the need to reduce GHG emissions. Adopting intensity-based targets does not prevent the development of a carbon market in Canada.

As part of the **federal plan published in April 2007[2]**, key industrial emitters will be able to choose from among the following three compliance measures in order to ensure compliance with their GHG emissions reductions obligations in Canada:

1) Buying units on the domestic carbon market:

   - Regulated Emitters' Credits: These credits will be issued by government authorities at the end of a compliance year to regulated emitters that reach their intensity-based GHG emissions reduction targets and reduce also the intensity of their GHG emissions below the target established by the federal government. These emitters will be able to sell their credits on the market or keep them for subsequent compliance years.

   - Offset Credits: Offset credits will be attributed to companies that will not be subject to intensity-based emissions reduction targets but that will be involved in voluntary projects to reduce their eligible GHG emissions.

   The futures contracts proposed by the Bourse will be based on these Canadian units.

2) Contributing to a technology fund:

   - The contribution to this fund will be limited to 70% of emitters' compliance needs in 2010. However, this contribution rate will gradually be reduced between 2011 and 2017, and the contribution limit will completely disappear in 2018. The fund's contribution rate has been fixed at $15/tonne of CO_2e between 2010 and 2012 and $20/tonne in 2013. The contribution rate would then be indexed to the nominal GDP.

[1] World Bank: State and Trends of the Carbon Market 2007 http://carbonfinance.org/docs/Carbon_Trends_2007-_FINAL_-_May_2.pdf pp.3-12

[2] Environment Canada: Regulatory Framework for Industrial Air Emissions http://www.ec.gc.ca/doc/media/m_124/report_eng.pdf

3) Buying international units (CERs or Certified Emission Reductions) under the Kyoto Protocol's Clean Development Mechanism (CDM). Access to CER credits for compliance purposes would be limited to 10% of each regulated emitters' target.

During consultations conducted by the Bourse with the key CO_2e industrial emitters in Canada, they informed us of their interest for a Canadian carbon market. Thus, for those regulated emitters wishing to comply with mandatory targets, a market-based solution such as the MCeX for acquiring units through the futures market will be an attractive alternative (i) if the price per tonne of carbon on this market is lower than that of the Technology Fund and/or (ii) for the percentage of units that cannot be acquired through the Technology Fund (for example 30% in 2010, 60% in 2015 and 100% in 2018). For other regulated emitters, the attraction of a carbon exchange lies in the price signal generated, which will:

- Encourage companies to reduce their GHG emissions below the prescribed target, given the possibility of financing their reduction efforts through the sale of units.
- Stimulate investments in green technologies and promote renewable energies.

Thus, the federal plan published in April 2007 will create ***minimal*** conditions for the establishment of a carbon market in Canada. While these conditions are not optimal given the other compliance options available to regulated industrial emitters (Technology Fund and international units), the Bourse has announced its intention to launch a carbon market. Such market is now scheduled for launch in early 2008.

III. Detailed Analysis

A. Features of the Canadian trading system

Regulated emitters' existing facilities (i.e. facilities operating before 2004) would be subject to an annual mandatory reduction target of 6% of the intensity of their GHG emissions from 2007 to 2010, compared with the 2006 level. For the following years, the annual target would be 2% until 2020.

For new facilities (i.e. facilities operating since 2004 or after), no reduction would be required for the first three years of operation, but afterwards theses facilities would be subject to an annual target of 2% until 2020.

According to Environment Canada forecasts, meeting these targets for existing and new facilities would bring emissions reductions to 49 MT in 2010, 72 MT in 2015 and 88 MT in 2020 compared with emission levels projected for each of these years in the absence of regulation[3]. It is this gap that emitters will have to bridge through the use of the carbon market, among others, in order to comply with their reduction target.

The system proposed by the Canadian government is described as a "baseline and credit system". This system is based on the allocation of units to a company for exceeding its intensity-based GHG emissions reduction targets (1 credit = right to emit one tonne of CO_2e, e.g. carbon dioxide equivalent*). The details regarding reduction target will be announced by the Canadian government in the fall of 2007.

The baseline and credit system works like this: at the end of each compliance year, the emissions of the industrial emitters concerned will be verified. Each emitter must then offset its GHG emissions against its intensity-based GHG emissions reduction target established by the government. The discrepancy between the imposed target and the actual emissions may be offset by, among other things, buying units on the domestic market.

* *GHG emissions are calculated based on the equivalent quantity of carbon dioxide required to produce a similar warming effect. The six GHGs are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, sulphur hexafluoride and perfluorocarbons.*

[3] Environment Canada: Clean Air Regulatory Agenda -Regulatory Framework for Industrial Air Emissions http://www.ec.gc.ca/Content/4/F/2/4F2292E9-3EFF-48D3-A7E4-CEFA05D70C21/techbrief_e.pdf

Exchange system trading units

Canadian (or domestic) CO_2e units will stem from two sources: regulated emitters' credits and offset credits.

It should be noted that:

- The federal government anticipates perfect fungibility between the two types of Canadian CO_2e units (regulated emitters' credits and offset credits), providing a unique price signal and promoting the creation of a unique trading and delivery currency. The underlying of the Co_2e futures contracts that the Bourse intends to list will be based on this Canadian CO_2e unit.

- The Canadian CO_2e units will be transferable from one year to another.

- Offset credits will be generated from the moment a project provides verified GHG emissions reductions (as soon as eligible projects are announced by the federal government).

- Kyoto credits (CERs or Certified Emission Reductions) from international markets will not be part of the domestic trading system and will have a separate currency and price.

National registry

For the domestic GHG trading system, the federal government has announced its intention to set up a national registry (or monitoring system) to account for delivered, held, transferred and cancelled units. This registry will only electronically process cash transactions and will not recognize futures transactions. Therefore, for a futures market, it is not mandatory that the registry be operational when the futures contract is launched, but only when the contract matures, to facilitate physical delivery. A domestic cash market could emerge once a national registry is set up. Futures or forwards contracts could be traded before the attribution of units and the establishment of a registry. Canada will also have to link its national registry to that of the Clean Development Mechanism or CDM of the Kyoto Protocol (CER units), which will allow Canadian entities to participate in this international market.

Anticipated market size

The size of the Canadian market (cash and derivatives) will depend mainly on:

- The mandatory reduction target level: the absolute reductions estimated by Environment Canada are 49 MT in 2010, 72 MT in 2015 and 88 MT in 2020;
- The percentage of absolute reductions captured by the market option: a technology fund will be competing with the market option for compliance. Companies will also be able to reduce their emissions internally;
- The level of diversification of the participants: it is expected that the market will initially attract key industrial emitters for their compliance needs. They will trade mainly on futures markets in order to manage the price risk per tonne of CO_2e. However, arbitrageurs and speculators will also gradually contribute to the liquidity of futures markets by trading CO_2e futures contracts as a financial asset, with no interest in holding the underlying;
- Based on the European experience, we can also anticipate about a 50/50 split in carbon unit trading between the over-the-counter (OTC) market and organized markets; and most transactions (over 90 %) will be carried out on futures markets (the balance on cash markets).

B. The international experience

Global market [4]

The carbon global market has tripled its value between 2005 and 2006, for an estimated amount of US$30 billion in terms of transactions.

Market *	Vol. (MT CO_2e)	Value (M $US)
Europe: EU ETS (EUA allowances)	**1,101**	**24,357**
Australia: New South Wales	20	225
U.S.: Chicago Climate Exchange® (CCX)	10	38
Kyoto (CDM and JI International Reduction Projects: CER and ERU units)	491	5,398
TOTAL	**1,625**	**30,018**

* Acronyms:

- MT: Mega Tonnes or Millions of Tonnes
- CO_2e: Carbon Dioxide Equivalent
- EUA: European Union Allowances
- EU ETS: European Union Emission Trading Scheme
- CDM: Clean Development Mechanism
- JI: Joint Implementation
- CER: Certified Emission Reduction
- ERU: Emission Reduction Unit

It should be noted that CCX is the world's first and North America's only voluntary carbon market. In addition, the European Climate Exchange (ECX), a sister organization of CCX, is the main market for the European Union Emission Trading Scheme.

Each market has its own units, which are traded at a price that reflects supply and demand on that market:

- Units traded for domestic compliances are local in scope (EU ETS, Australia, Canada).
- Units traded using the Kyoto mechanisms (CDM ⇨ CER credits, JI ⇨ ERU credits) are international in scope.

European domestic system

Numerous experiments have been successfully conducted with regard to emission rights trading systems, mainly in Europe (EU ETS or " European Union Emission Trading Scheme")[5], the world's largest carbon market with nearly 70% of the global trading volume of CO_2e (1,101 MT in 2006) and 80% of the global trading value (US$24.3 billion in 2006).

[4] World Bank: State and Trends of the Carbon Market 2007, http://carbonfinance.org/docs/Carbon_Trends_2007-_FINAL_-_May_2.pdf p.3.

[5] European Commission, Questions and Answers on Emissions Trading and National Allocation Plans for 2008 to 2012, http://ec.europa.eu/environment/climat/pdf/m06_452_en.pdf

According to European legislation, each of the 25 member countries establishes a GHG emission limit for its key industrial sectors in order to meet its national reduction target, in accordance with the Kyoto Protocol. This emission limit established in the national allowance plans is then translated into the equivalent distribution of allowances to the regulated facilities (1 allowance = right to emit 1 tonne of CO_2e).

This system is described as a "cap and trade system", since it is based on the allocation of allowances (EUAs or European Union Allowances) to a company based on the mandatory absolute emissions limit.

The operational period of the European domestic system is divided into two phases[6]: (phase I: 2005-2007, phase II: 2008-2012). For phase I which is an exploratory phase, nearly 2,200 MT of allowances were allocated annually to over 10,000 industrial facilities. For phase II, the preparation of national allocation is under way. This phase II coincides with the first commitment period of the Kyoto Protocol. It should be noted that carbon dioxide is the only GHG covered in phase I. Other GHG could be covered in phase II. Given the newness of this European market and the uncertainty regarding the extent of the reduction objectives, the EU ETS allowance price was volatile during phase I. This volatility, caused by the fact that CO_2e permit prices are reacting to the information received by the EU ETS market, is nonetheless a sign that it is functioning smoothly.

The main exchanges active in this market are ECX/ ICE Futures, Nordpool, Powernext, EEX and EXAA.[7] ECX is currently the main organized market in Europe, with over 40% of the total transactions of the EU ETS market and 80% of the trading volume on organized markets for the year 2006. ECX/ICE trades a futures contract (ICE Futures ECX CFI Futures Contract) that is linked to 1,000 European compliance units (EUAs) (1 allowance = right to emit one tonne of CO_2e). In addition, it is traded on the electronic platform of ICE Futures, and clearing and financial security are ensured by LCH.Clearnet Ltd.

Other Initiatives

Certain provinces are evaluating the possibility to set up a link to the emerging North American carbon market established by certain American States (for example, the Regional Greenhouse Gas Initiative or "Reggi") or to create their own carbon trading system. Currently, only Alberta has adopted its own trading system, without any link to the rest of Canada[8].

C. The Montréal Climate Exchange (MCeX)

Market-based solution for reducing GHG emissions

There is a consensus today that the market-based solution, by providing a common price signal, is an effective, flexible way to help regulated emitters, as a group, reduce their GHG emissions cost-effectively. A carbon market is based on the principle that GHG emissions reduction costs for regulated industrial emitters are variable. Through this incentive, some will be able to reduce their GHG emissions beyond the prescribed target, at low cost, and sell this differential to other emitters with higher reduction expenses.

A derivatives market normally develops following the establishment of a liquid cash market. In the case of the carbon market, the European experience (EU ETS) shows that the opposite situation occurred. This is due to the fact that the development of a carbon cash market involves, on the one hand, the creation, attribution or allocation of trading units by a regulatory body and, on the other, the establishment of a

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[6] European Commission : http://ec.europa.eu/environment/climat/first_phase_ep.htm and http://ec.europa.eu/environment/climat/2nd_phase_ep.htm

[7] Climate Exchange Plc-ECX: http://www.europeanclimateexchange.com and http://climateexchangeplc.com/news/trading-update

[8] Reggi Trading Program: http://www.rggi.org/ and Alberta Trading System: http://www3.gov.ab.ca/env/climate/docs/Credit_Trading_System.pdf

functional registry in order to account for outstanding emissions units. Industrial companies also tend to not want to sell the units granted to offset the possibility of future needs; rather, they tend to manage the price risks related to these future needs by turning to futures markets.

The MCeX will be a market that will combine environmental know-how (in partnership with CCX) and a trading and clearing infrastructure already established by the Bourse, within a regulated market framework. The main benefits provided to stakeholders by the MCeX offering CO_2e futures contracts will be:

- A CO_2e unit price risk management service;
- A futures price discovery mechanism based on supply and demand that will (1) encourage companies to reduce their GHG emissions below the prescribed target, given the possibility of financing their reduction efforts through the sale of units, (2) stimulate investments in green technologies and promote renewable energies and (3) offer companies the possibility of adapting their GHG emissions reduction commitments to their economic reality.
- The development of liquidity for an emerging market by contributing to the creation of a critical mass of buyers and sellers;
- The security of transactions through a regulatory framework and the financial integrity ensured by a clearing corporation (Canadian Derivatives Clearing Corporation (CDCC)).

Potential stakeholders

All potential stakeholders will be able to trade CO_2e futures contracts by sending their orders to approved participants of the Bourse, using the current trading infrastructure, or by becoming approved participants of the Bourse themselves, according to the current membership conditions. The clearing of CO_2e futures contracts will be carried out by clearing members of CDCC according to the existing procedures.

Potential stakeholders on the carbon futures market are:

- The major regulated industrial emitters: Mainly for price risk management in order to be able to comply with the mandatory emission limits at minimum cost;
- Financial institutions and institutional investors: Investors see these instruments as a new asset class. They can also be used for hedging transactions in portfolios exposed to carbon price risk. A recent study carried out by the CIBC (*Weighing Carbon Costs in Canada*)[9] estimated that, in terms of stock market capitalization, 40% of the companies listed on the TSX are exposed to this risk;
- Hedge funds: Hedge fund managers are attracted by the prospect of achieving high returns by purchasing speculative positions in a new, relatively inefficient and volatile market where a large part of the risk depends on future regulatory frameworks;
- Insurance companies: In order to hedge insurance products related to carbon price risk.

[9] CIBC World Markets, Weighing Carbon Costs in Canada http://research.cibcwm.com/economic_public/download/occrept61.pdf p.8

IV. Proposed products

Two CO_2e futures contracts are proposed by the Bourse:

A. Futures contract with physical settlement;

B. Futures contract with cash settlement.

These two types of futures contracts have certain common specifications:

- Underlying common to both contracts: a Canadian carbon dioxide equivalent (CO_2e) unit, as defined by a governmental or legislative authority in Canada. Each unit will allow for the emission of one metric tonne of carbon dioxide equivalent (CO_2e). Canadian CO_2e units will include regulated emitters' credits and offset credits.

- The Bourse considers the new CO_2e futures contract a commodity futures contract. In fact, in Ontario, the carbon dioxide equivalent (CO_2e) unit is considered a commodity and not a security by the Ontario Securities Commission (the OSC). We refer to Rule 14-502 of the OSC *(Commodity Futures Act) Designation of Additional Commodities*[10], dated May 13, 2005, which added the following product to the list of commodities described in section 1 of the *Commodity Futures Act*:

  "*A product based on environmental quality, including emissions or emissions units*;"

  This addition took effect on May 16, 2005.

  The *Companion Policy 14-502 CP*[11] justifies this addition to the list of commodities by the fact that the over-the-counter emissions credits (units) market has evolved and contracts are becoming more standardized. While none of these contracts is yet available in Ontario, the OSC has decided to add emissions and emissions credits (units) to the list of commodities, in anticipation of their migration into organized markets. Given that, to our knowledge, Ontario is the only jurisdiction in Canada that has defined this type of product, the Bourse considers this definition acceptable.

- The size of each of the two proposed CO_2e futures contracts is 100 units. The difference between the size of the proposed contracts (100t of CO_2e) and that of futures contracts on the EU ETS European market (1000t of CO_2e) can be explained by the very nature of the system proposed in Canada (domestic baseline and credit system), as well as the estimated size of the market relative to expected total reduction targets. In fact, the Bourse feels that a reduced contract size will promote greater liquidity by promoting exchanges, both for regulated emitters wishing to manage their risk and for speculators and arbitrageurs.

A. Futures contract with physical settlement

- **Features:**

  - This contract will allow regulated emitters to physically obtain units for complying with the Canadian regulatory framework. It will be used mainly for credit price risk management;

  - The expiry of the contracts will coincide with the compliance period imposed by the Canadian regulatory framework (that is annually starting in 2010);

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[10] OSC Rule 14-502 (Commodity Futures Act) Designation of Additional Commodities and Companion Policy 14-502CP
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part1/rule_20050513_14-502_des-add-comms.pdf

[11] OSC Rule 14-502 (Commodity Futures Act) Designation of Additional Commodities and Companion Policy 14-502CP
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part1/rule_20050513_14-502_des-add-comms.pdf

- A national registry must be set up allowing for the transfer of units from the seller to the buyer via a clearing corporation, namely, the Canadian Derivatives Clearing Corporation (CDCC). Since the compliance period begins in 2010, no delivery will be made before that year. As a result, the technical details regarding the national registry and the delivery procedures do not have to be established immediately, but rather only in the months following the establishment of the regulatory framework and the functional implementation of the national registry;

- Exchange for Physical transactions (EFP), Exchange for Risk transactions (EFR), Substitution of OTC derivative instruments for Futures Contracts transactions (Substitution), block trades, pre-arranged transactions and cross transactions will be permitted.

- An alternative delivery procedure is also provided for a CO_2e futures contract with physical settlement. The terms and conditions for this procedure will be established in CDCC's Rules (new article C-1906 of CDCC's Rules).

- A position limit as well as a minimum position reporting threshold will be set by the Bourse, as it does currently for its other futures contracts.

- Unit shortage: CDCC will establish the rules in case of a shortage of Canadian CO_2e units at the time of delivery (addition of new article C-1905 to CDCC's Rules).

- Force majeure: In the specific case where the federal regulatory project related to the trading system is abandoned, the alternative to physical delivery of units will be a special cash settlement based on a final settlement price determined by the Bourse and will be binding for the parties involved. This final settlement price could be obtained, for example, through a survey of a list of key industrial emitters representing a significant sampling of the originally regulated sectors' valuation of the underlying price. Moreover, in order to guarantee a minimum environmental quality standard linked to the underlying, the Bourse could specify that this underlying must be minimally compliant with a standard established by a recognized standardization organization. Today, this standard could be, for example, the ISO 14064 standard[12] or the standard established by the Voluntary Carbon Standard (VCS) Steering Committee (SC)[13].

B. Futures contracts with cash settlement

- **Features**

  - A futures contract adapted to the needs of financial stakeholders interested in participating in the carbon market without physical delivery of the underlying;

  - The expiry of these contracts will be coordinated (daily, monthly, quarterly and annually), giving financial stakeholders a certain flexibility in their investment strategies;

  - Upon expiry, all open positions will be settled in cash. The final settlement price will be based on a method reflecting the market price of the CO_2e cash instrument. This price will be obtained using an index or a survey of major industrial emitters.

  - Exchange for Physical transactions (EFP), Exchange for Risk transactions (EFR), Substitution of OTC derivative instruments for Futures Contracts transactions (Substitution), block trades, pre-arranged transactions and cross transactions will be permitted.

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[12] ISO 14064 standard: http://www.csa.ca/products/environment/Default.asp?articleID=8686&language=english

[13] VCS standard http://www.ieta.org/ieta/www/pages/download.php?docID=2501

- In case of force majeure, the same procedure applies for this contract as for the CO_2e futures contract with physical settlement.

V. Summary of the proposed amendments to the Rules of the Bourse

The current Rules of the Bourse do not allow for the listing of CO_2e futures. As a result, amendments and additions to Rules Six and Fifteen of the Bourse are necessary to allow for the listing of CO_2e futures contracts. The Bourse proposes, among others, the addition of a new article 6815B to Rule Six regarding substitution of over-the-counter derivative instruments for futures contracts. In addition, it is also proposed to amend:

1. the list of permissible over-the-counter financial instruments with respect to article 6815A;
2. the procedure for the execution and reporting of exchange for physical transactions and exchange for risk transactions;
3. the exchange for physical and exchange for risk reporting form;
4. the procedures for the execution of block trades; and
5. the procedures applicable to the execution of cross transactions and the execution of prearranged transactions.

In addition, it should be noted that certain of the proposed amendments to articles 6005 and 6815, the addition of article 6815A (exchange for risk transactions), the list of permissible over-the-counter financial instruments with respect to the new article 6815A, the procedure for the execution and reporting of exchange for physical transactions and exchange for risk transactions and the exchange for physical and exchange for risk reporting form have already been submitted to the Autorité des Marchés Financiers (AMF) for approval.

The amendments proposed in this analysis to articles 6005 and 6815, the list of permissible over-the-counter financial instruments with respect to the new article 6815A, the procedure for the execution and reporting of exchange for physical transactions and exchange for risk transactions and the exchange for physical and exchange for risk reporting form were made using the versions submitted to the AMF, as specified in the previous paragraph. These amendments appear in yellow in the documents attached to this analysis.

Terms and conditions for Exchanges for Physical (EFPs)

The Bourse proposes that article 6815 of Rule Six be amended in order to allow approved participants to exchange CO_2e futures contracts for the physical underlying.

Terms and conditions for Exchanges for Risk (EFRs)

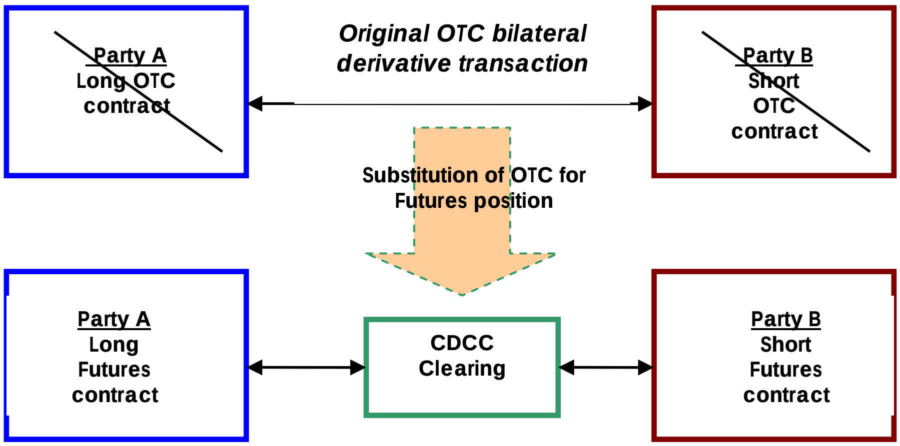
The list of permissible over-the-counter financial instruments with respect to the new article 6815A of Rule Six, the procedure for the execution and reporting of exchange for physical transactions and exchange for risk transactions and the exchange for physical and exchange for risk reporting form have been amended such that a EFR transaction pertaining to a futures contract, the underlying of which is a physical commodity (i.e. CO_2e), can be executed.

Terms and conditions for the substitution of OTC derivative instruments for futures contracts transactions (new article 6815B)

The Bourse predicts that an over-the-counter market (“forwards" market) will develop once the Government of Canada implements the Canadian CO_2e units standard. In order to capture this activity, the Bourse is introducing a complementary mechanism called “Substitution of OTC derivative instruments for futures contracts”, making it possible to substitute a CO_2e OTC derivative instrument for a CO_2e futures contract.

Substitution transactions allow to substitute an over-the-counter derivative instrument for a listed futures contract. Under this mechanism, the original bilateral OTC transaction is terminated by the counterparties and converted into exchange-traded futures contracts. The buyer of the OTC derivative instrument (a “swap” or a “forward”) substitutes this position and buys a corresponding exchange-traded futures contract, while the seller of the OTC derivative instrument substitutes this position and sells the corresponding exchange-traded futures contract. For example, the Bourse will allow approved participants to convert an OTC transaction, like a “forward”, to a CO_2e futures contract.

Process of substituting an over-the-counter derivative instrument for a futures contract



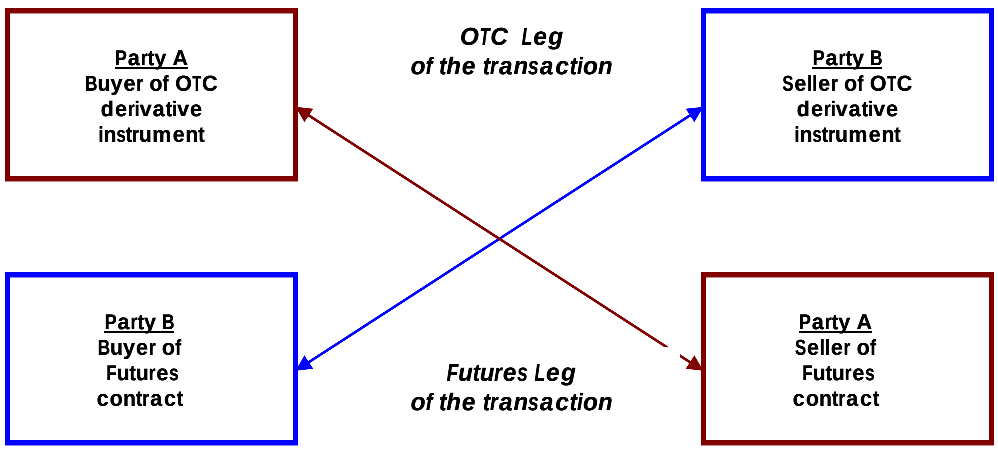
Difference between a substitution of over-the-counter derivative instruments for futures contracts transaction and an exchange for risk (EFR) transaction

In the case of an exchange for risk (EFR) transaction, the buyer of the futures contract is the seller of the OTC derivative instrument (a “swap”, “forward” or any other OTC derivative instrument), and the seller of the futures contract is the buyer of the OTC derivative instrument.

However, in the case of a substitution of over-the-counter derivative instruments for futures contracts transaction, the buyer of the futures contract is the buyer of the OTC derivative instrument, and the seller of futures contract is the seller of the OTC derivative instrument. It is important to note that for a substitution transaction, unlike an EFR transaction, there is no exchange or transfer of ownership of the OTC derivative instrument.

It should also be noted that an EFR is similar to an EFP in that it is a “basis trade” transaction. An EFR involves an exchange of a futures contract position for a “swap”, “forward” or any other OTC derivative instrument position, while an EFP involves an exchange of a futures contract position for a physical position on the cash market, such as, for example, a bond or a basket of stocks.

Exchange for risk (EFR) process



The proposed article 6815B describing the substitution mechanism will complete the existing EFP Rule (article 6815) and the proposed EFR Rule (article 6815A). As a reference, such mechanism has been approved by the CFTC for the Chicago Mercantile Exchange (CME) [14].

Paragraph c) of article 6005 of Rule Six has been amended to include substitution of over-the-counter derivative instruments for futures contracts transactions among the transactions that can be executed over the counter.

The procedure for the execution and reporting of exchange for physical transactions and exchange for risk transactions has also been amended to include substitution of over-the-counter derivative instruments for futures contracts transactions. The same applies for the exchange for physical and exchange for risk reporting form.

Substitution transactions involve only CO_2e futures contracts.

Terms and conditions for the alternative delivery procedure

The alternative delivery procedure is provided for a CO_2e futures contract with physical settlement. This procedure is designed to offer clearing members a certain level of flexibility in the case where there is still a possibility of delivery, but outside the normal mandatory period. Under this procedure, a seller and a buyer who have been matched by CDCC can agree to consummate delivery under terms different from those prescribed in the contract specifications. A notice must then be sent to CDCC advising it of this agreement and releasing it of any counterparty obligation. It should be noted, however, that despite the flexibility this procedure offers, failure to deliver could result in a penalty or other punitive action. The terms and conditions for the alternative delivery procedure will be covered in CDCC's Rules (new article C-1906 of CDCC's Rules).

Terms and conditions for the daily settlement price

In order to reflect a fair valuation, the daily settlement price is based on a weighted average of the volumes of all futures transactions occurring during the last 15 minutes of trading. However, in case of the absence of transactions during this 15-minute period, alternative methods for calculating the daily settlement price will be proposed in the contracts specifications and in the Rules of the Bourse. These terms and conditions are covered in article 6813 of Rule Six.

[14] http://www.cme.com/files/S-4430.pdf

Terms and conditions for block trades

It is proposed that the procedures for the execution of block trades be amended such that the prescribed time delay to report a block trade to the Bourse and the minimum quantity threshold for CO_2e futures contracts be established in accordance with article 6380 of the Bourse's Rules. The prescribed time delay to report block trades to the Bourse for CO_2e futures contracts will be set at 15 minutes, in accordance with the other permissible futures contracts on the list. As for the minimum quantity threshold, it is proposed that it be set at 500 contracts (for a contract of 100 t). This threshold is similar to that established by the ECX for a carbon dioxide futures contract, which is comparable to that of the MCeX, that is, a threshold of 50 contracts for a contract of 1,000 t.

Terms and conditions for the execution of cross transactions and prearranged transactions

The Bourse also proposes that the procedures related to the execution of cross transactions and the execution of prearranged transactions be amended such that the prescribed exposure time delays which must occur at or between the current best bid and the current best offer available in the electronic system of the Bourse and the minimum quantity thresholds for CO_2e futures contracts be established in accordance with article 6380 of the Bourse's Rules. The prescribed time delay for CO_2e futures contracts will be set at 5 seconds and the minimum quantity threshold will be set at 1 contract, in accordance with the other permissible futures contracts identified in the procedure.

Terms and conditions for margin requirements

The Rules of the Bourse do not specify any amounts regarding margins applicable to futures contracts listed at the Bourse. These margins are revised periodically (at least once a month) by the Bourse based on the margin intervals calculated by CDCC and transmitted to approved participants by means of circular. CO_2e futures contracts will be subject to the same practice as the one applicable to all other futures contracts.

Terms and conditions for position limits

Our verification of the practices of other markets on which GHG emissions contracts are traded show that these markets generally do not impose position limits. However, some of them impose the following reporting obligations:

- ECX/ICE - CO2e futures contract: no position limit – Obligation to report daily on all positions held by the firm and its clients in the futures contract with the closest expiry as well the contract expiring in December of the current year;
- CCX – CFI contract: no position limit – no position report required – all positions are entered in the registries of CCX, which will then have all the necessary information;
- CCFE: - CFI contract: no position limit for true market makers – for speculators, the limit is 4,000 contracts – Daily position report required for any position of 25 contracts or more.

Considering the existing practices on the markets as a basis for comparison, we feel that the Rule regarding position limits should be worded in such a way as to allow the Bourse enough flexibility to adjust the limits according to the size of the underlying market and the open interest as it currently does for its other futures contracts. This means, therefore, that the limits would be calculated according to the same methodology, that is, the highest of a specified number of contracts or 20% of the average open interest over the past three months. In addition, we also feel that we should use the same approach as the one we use currently for other futures contracts, namely, that the same limits should apply to both speculators and true market makers, the difference being that a true market maker can be exempted from position limits under Policy C-1 of the Bourse.

It should be noted, with regard to markets that require daily position reports, that the production of these reports is usually entirely automated, which does not impose too heavy a load on participants. However, the Bourse does not have such an automated system and, for all its other currently listed futures contracts, requests that a positions report (prepared manually by approved participants or their in-house system) be submitted to the Bourse twice a week, that is, the 2nd and 4th business days of every week. The Bourse therefore feels that the same practice should apply to CO_2e futures contracts.

In addition, we feel that position limits should be calculated according to the same methodology, regardless of whether the contract is settled in cash or by physical delivery. The main users of emissions contracts will be true market makers; consequently, regardless of whether they trade a contract with cash settlement or with physical delivery, they will not take more positions than needed to cover their risks. As for speculators, it is a well-established fact that when they trade contracts with delivery, they make sure to liquidate their positions so as not to have to make or receive delivery. We therefore see no justification for limits being different for each type of contract.

Articles 15938 (for a contract with physical settlement) and 15958 (for a contract with cash settlement) cover these terms and conditions.

Terms and conditions for position limit reporting

The new articles 15939 and 15959 provide terms and conditions for position limit reporting by approved participants of the Bourse. Approved participants will have to report to the Bourse any total position exceeding 250 CO_2e futures contracts (for a contract of 100 t) or above any other lesser reporting threshold that will be determined by the Bourse from time to time. Given that no cash market exists today that allows us to establish this threshold, it has been set conservatively, based on the reporting threshold established by the CCFE for the carbon dioxide futures contract currently listed on the CCFE. This reporting threshold is 25 contracts for a contract of 1000 t.

Terms and conditions in case of a shortage of units for a CO_2e futures contract with physical settlement

The terms and conditions in case of a shortage of deliverable Canadian CO_2e units will not be covered in the Rules of the Bourse, but only in the Rules of CDCC (new article C-1905).

Terms and conditions in the case where the regulatory project linked to the trading system is amended or abolished

While it is preferable that all of the elements linked to the regulatory framework be in place before a market is launched (i.e. design of the national registry, type of projects eligible to generate offset units, specific terms and conditions for the technology fund, etc.), the minimum conditions required to launch a futures market are already in place, namely, information regarding credit standards and knowledge of the approximate level of reduction targets by the industrial companies. It is important to underline that all of the political parties at the federal level have already voted in favor of using market forces to reduce GHG emissions, which considerably reduces the risks of launching a futures market.

However, in the case where the regulatory project linked to the trading system is amended, the proposed definition of the underlying in the Rules of the Bourse (new articles 15931 and 15951) is general enough to encompass any exchangeable unit stemming either from the current GHG emissions reductions normative framework or from other regulatory approaches.

In addition, in the case where the regulatory project linked to the trading system is abolished, a Force Majeure clause has been provided in the Rules of the Bourse to take this situation into account. The new articles 15948 (for the contract with physical settlement) and 15962 (for the contract with cash settlement) cover these terms and conditions. The alternative would be a special cash settlement based on a final settlement price determined by the Bourse which will be binding for the parties involved. As mentioned earlier in section IV A (Futures contract with physical settlement), the final settlement price could be obtained, for example, through a survey of a list of key large industrial emitters representing a significant sampling of the originally regulated sectors' valuation of the underlying price. Moreover, in order to guarantee a minimum environmental quality standard linked to the underlying, the Bourse could specify that this underlying must be minimally compliant with a standard established by a recognized standardization organization. Today, this standard could be, for example, the ISO 14064 standard or that established by the Voluntary Carbon Standard (VCS) Steering Committee (SC).

The ISO 14064 standard is a new series of voluntary standards developed at the international level by the industry, governments, and non-governmental organizations, as well as professional service providers, in order to help organizations and governments to measure, report and verify their GHG emissions. It was established by the International Standards Organization (or "ISO"), the largest standardization organization in the world. The Canadian Standards Association or “CSA”, a non-profit organization operating in Canada and on the international scene in the standards development field, approved the ISO 14064 standard along with over fifty countries. The ISO 14064 standard is therefore now recognized as a national standard in Canada.

As for the Voluntary Carbon Standard Framework (VCS), the latter constitutes a global standard for voluntary emissions reduction projects. This standard was developed jointly by the International Emissions Trading Association (IETA), The Climate Group (TCG), the World Business Council for Sustainable Development (WBCSD) and the World Economic Forum (WEF).

VI. Objective and public interest

The Bourse’s objective in listing CO_2e futures contracts is to create an organized and regulated carbon market with an effective exchange and price discovery mechanism based on transparency, security and liquidity, as well as to provide a risk management service.

VII. Process

The proposed amendments to the Rules of the Bourse are being presented to the Bourse’s Rules and Policies Committee for approval. They will then be submitted to the Autorité des marchés financiers (AMF) for approval and published for a 30-day comment period.

VIII. Documents Attached

- Rule Six of Bourse de Montréal Inc.: addition of a new article 6815B and amendments to articles 6005, 6801 to 6808, 6812, 6813 and 6815;
- Rule Fifteen of Bourse de Montréal Inc.: addition of new sections 15931-15950 and 15951-15970, and amendments to article 15001;
- Specifications of CO_2e futures contracts with physical or cash settlement;
- Procedure for the execution and reporting of exchange for physical transactions, exchange for risk transactions and substitution of OTC derivative instruments for futures contracts transactions;
- Exchange for Physical, Exchange for Risk and Substitution of OTC Derivative Instruments for Futures Contracts Reporting Form;
- List of permissible OTC financial instruments in article 6815A of Rule Six of Bourse de Montréal Inc. (Exchange for Risk transactions);
- Procedures applicable to the execution of cross transactions and prearranged transactions; and
- Procedures for the execution of block trades.

6005 Off-Exchange Transactions
(10.10.91, 19.11.93, 14.07.95, 22.11.99, 00.00.00)

The only ~~trades~~transactions in any securities or derivative instruments listed on the Bourse~~security~~ which an approved participant ~~member~~ may make off the Bourse~~Exchange floor~~ are the following:

~~a) an off-exchange principal trade made for the purpose of effecting a wide distribution;~~

~~b) an agency trade when, in the opinion of the Exchange, trading activity or some other special feature, such as price or acquisition for control, so warrants it;~~

a~~c~~) a ~~trade~~ transaction made to adjust an execution error on~~in connection with~~ a client's order;

~~d) a trade made on another exchange provided the security is listed on such exchange;~~

~~Members may execute an immediately tradeable fill or kill order for a Canadian account on a foreign over-the-counter market if the total cost of the trade to the client, including reasonable currency conversion and execution costs and reasonable commissions (the "net price") is better than the net price based on the price available on the Exchange at the time of execution.~~

~~For the purpose of the preceding paragraph:~~

~~• an "immediately tradeable" order is a market order, a buy order with a limit price that is at or above the lowest price at which there is a sell order at that time or a sell order with a limit price that is at or below the highest price at which there is a buy order at that time; and~~

~~• only The London Stock Exchange and The NASDAQ National Market System are foreign over-the-counter markets on which trades may be made pursuant to this exception.~~

~~Limit orders at prices that are not immediately tradeable are not eligible for this exception.~~

~~Furthermore, this exception only applies to one-sided agency trades. Members are prohibited from:~~

~~• making a put-through trade involving one or more Canadian accounts; and~~

~~• "meeting " with another member in order to execute an agency trade on behalf of Canadian client orders, or to execute a principal trade with another member in a foreign over-the-counter market.~~

~~e) a trade in a security which has been called for redemption;~~

b~~f~~) a ~~trade~~ transaction made as a result of the exercise~~ing~~ of an ~~put or call~~ option or of a delivery pursuant to a futures contract;

~~g) trades in rights and in shares issued or to be issued on the exercise of rights;~~

~~h) during the thirty business days preceding the expiry date, trades in warrants and shares issued or to be issued on the exercise of such warrants may be made off the Exchange;~~

~~i) a trade which is part of a wide distribution;~~

~~j) a trade in a listed security which has been suspended from trading, unless prohibited by the Exchange but not a trade in a listed security for which trading has been delayed or halted;~~

~~k) a trade in a listed debenture where:~~

~~i) the trade is pursuant to an order which exceeds $10,000, principal amount, or~~

~~ii) the trade can be completed at a better price off the Exchange;~~

~~l) a trade made outside of Canada as described in article 6006;~~

c~~m~~) an Exchange for Physicals (EFP) transaction pursuant to article 6815~~-~~, ~~or~~ an Exchange for Risk (EFR) transaction -pursuant to article 6815A or a Substitution of Over-The-Counter Derivative Instruments for Futures Contracts pursuant to article 6815B;

d~~n~~) an off-exchange~~Ex-Pit~~ transfer of securities or derivative instruments~~futures contracts~~ pursuant to article 6816;

~~o) a trade that requires delivery of a prospectus (other than a prospectus for a distribution through the facilities of the Exchange) to the purchaser.~~

e) a block trade in a security or derivative instrument designated by the Bourse and executed according to the provisions of article 6380.

D. SPECIAL RULES FOR TRADING FUTURES CONTRACTS

Section 6801 - 6820
Terms of Trade
Futures

6801 Standard Trading Unit
(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 29.04.02, 14.06.02, 03.05.04, 24.07.06, 00.00.00)

No futures contract shall be traded on the Bourse unless it has standardized terms and is issued by the appropriate clearing corporation in cooperation with the Bourse.

Unless otherwise determined by the Bourse, each trading unit shall consist of the following:

a) in the case of the 30-day overnight repo rate futures:
a nominal value of CAN$5,000,000.

b) in the case of the 1-month Canadian bankers' acceptance futures:

a nominal value of CAN$3,000,000 of 1-month Canadian bankers' acceptances.

c) in the case of the 3-month Canadian bankers' acceptance futures:

a nominal value of CAN$1,000,000 of 3-month Canadian bankers' acceptances.

d) i) in the case of the 2-year Government of Canada Bond futures:

CAN$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%

ii) in the case of the December 2006 2-year Government of Canada Bond futures and for subsequent contract months:

CAN$200,000 nominal value of a notional Government of Canada Bond bearing a coupon of 4%.

e) in the case of the 5-year Government of Canada Bond futures:

CAN$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%.

f) in the case of the 10-year Government of Canada Bond futures:

CAN$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6 %.

g) in the case of the futures contract on the S&P/TSX 60 Stock Index:

CAN $200 times the S&P/TSX 60 Stock Index level.

h) in the case of the futures contract on designated S&P/TSX sectorial stock indices:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

i) in the case of the futures contract on Canadian and international stocks:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

j) in the case of the futures contract on carbon dioxide equivalent units with physical settlement:

100 carbon dioxide equivalent units. Each unit is an entitlement to emit one metric ton of carbon dioxide equivalent.

k) in the case of the futures contract on carbon dioxide equivalent units with cash settlement:

100 carbon dioxide equivalent units. Each unit is an entitlement to emit one metric ton of carbon dioxide equivalent.

6802 Price
(24.01.86, 22.04.88, 08.09.89, 17.10.91, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 00.00.00)

a) During the life of a contract, only the price per unit of physical commodity is negotiable.

b) The price for any particular delivery month of a contract is determined by the bids and offers made on the Bourse, subject to the regulations.

c) Until otherwise determined by the Bourse, the price shall be quoted as follows:

Government of Canada Bond futures	Per CAN$100 nominal value
30-day overnight repo rate futures	In terms of an index of 100 minus the monthly average overnight repo rate in percentage point on an annual basis for a 365-day year
1-month Canadian bankers' acceptance futures	In terms of an index of 100 minus the yield in percentage point on an annual basis for a 365-day year on 1-month Canadian bankers' acceptances
3-month Canadian bankers' acceptance futures	In terms of an index of 100 minus the yield in percentage point on an annual basis for a 365-day year on 3-month Canadian bankers' acceptances

Futures contract on the S&P/TSX 60 Stock Index	In index points, expressed to two decimal points. One point equals CAN $200
Canadian share Futures Contract	In CAN cents and dollars per share
International Share Futures Contract	In unit(s) of International currency per share
Futures contract on carbon dioxide equivalent units with physical and cash settlement	In CAN dollars and cents per metric ton of carbon dioxide equivalent

6803 Currency
(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 00.00.00)

Trading, clearing, settlement and delivery shall be in the currency designated by the Bourse and until otherwise determined shall be as follows:

30-day overnight repo rate futures	CAN Dollars
1-month and 3-month Canadian bankers' acceptance futures	CAN Dollars
Government of Canada Bond futures	CAN Dollars
Futures contract on the S&P/TSX 60 Stock Index	CAN Dollars
Canadian share futures Contract	CAN Dollars
Futures contract on carbon dioxide equivalent units with physical and cash settlement	CAN Dollars
International share futures contracts	International currency

6804 Futures Contracts Expiries ~~Months~~
(24.01.86, 22.04.88, 08.09.89, 16.04.92, 27.07.94, 19.01.95, 11.03.98, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 00.00.00)

Unless otherwise determined by the Bourse, the contract months shall be as follows:

30-day overnight repo rate futures	Monthly and quarterly contract months

1-month Canadian bankers' acceptance futures	The first 6 consecutive months
3-month Canadian bankers' acceptance futures	Quarterly months in the March, June, September and December cycle as well as monthly expirations in the January, February, April, May, July, August, October and November cycle
Government of Canada Bond futures	Quarterly months in the March, June, September and December cycle
Futures contract on the S&P/TSX 60 Stock Index and futures contracts on S&P/TSX sectorial stock indices	Quarterly months in the March, June, September and December cycle
Share futures contracts	Quarterly months in the March, June, September and December cycle as well as selected monthly expirations in January, February, April, May, July, August, October and November cycle
Futures contract on carbon dioxide equivalent units with physical settlement	Daily, monthly, quarterly and annual expiries
Futures contract on carbon dioxide equivalent units with cash settlement	Daily, monthly, quarterly and annual expiries

6807 Minimum Price Fluctuations
(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 29.04.02, 14.06.02, 15.10.02, 03.05.04, 17.11.04, 01.12.06, 00.00.00)

Unless otherwise determined by the Bourse, minimum price fluctuations shall be as follows:

a) 30-day overnight repo rate futures — 0.005 per $100 nominal value

b) 1-month and 3-month Canadian Bankers' acceptance futures

i) For the nearest contract month(s), as determined by the Bourse, 0.005 per $100 nominal value.

ii) For all contract months excluding the nearest contract month(s) as determined by sub-paragraph i), 0.01 per $100 nominal value.

c) Government of Canada Bond futures Contracts — a minimum of 0.005 per $100 nominal value

d) Futures contract on the S&P/TSX 60 Stock Index — 0.01 index point equivalent to CDN $2 per contract

e) Canadian share futures contract	A minimum of $0.01 CDN per Canadian share
f) International share futures contracts	At a minimum of the corresponding unit of fluctuation used by the market on which the underlying stock is traded
g) Futures contracts on S&P/TSX sectorial stock indices	0.01 index point
h) Futures contract on carbon dioxide equivalent units with physical settlement	A minimum of $0.01 CDN per metric ton of carbon dioxide equivalent
i) Futures contract on carbon dioxide equivalent units with cash settlement	A minimum of $0.01 CDN per metric ton of carbon dioxide equivalent

6808 Price Limits / Trading halts
(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 24.07.06, 00.00.00)

The Bourse shall establish for each contract a maximum price limit with respect to the previous days settlement price and there shall be no trading above or below that limit except as provided below. Until otherwise determined by the Bourse, the daily price limits shall be as follows:

a) 30-day overnight repo rate futures: NIL

b) 1-month and 3-month Canadian bankers' acceptance futures: NIL

c) Government of Canada Bond futures:

Trading is prohibited during any day at a price higher or lower by more than 3 points, than:

i) the settlement price for such futures contract on the previous business day; or

ii) the average of the opening range or the first trade, during the first day of trading in a futures contract; or

iii) the price established by the Bourse in an inactive contract.

d) Futures contract on the S&P/TSX 60 Stock Index and futures contract on S&P/TSX sectorial stock indices:

i) Trading halts

Trading halts on the futures contract on the S&P/TSX Stock Indices shall be coordinated with the trading halt mechanism of the underlying stocks. In accordance with Policy T-3 of the Bourse entitled "Circuit Breaker", a trading halt of the futures contract shall be triggered only in conjunction with the triggering of circuit breakers set in coordination with the New York Stock Exchange and The Toronto Stock Exchange.

ii) Resumption of Trading

In the event that trading in the securities market resumes after a trading halt, trading in the S&P/TSX Index futures contracts shall resume only after a percentage (as determined by the Bourse from time to time) of the stocks underlying the S&P/TSX Indices have re-opened.

e) Canadian share futures contract

i) Trading halts

Trading halts on Canadian share futures contract shall be coordinated with the trading halt mechanism of the underlying stocks. In accordance with Policy T-3 of the Bourse entitled "Circuit Breaker", a trading halt of the futures contract shall be triggered in conjunction with the triggering of circuit breakers set in coordination with the New York Stock Exchange and The Toronto Stock Exchange.

f) International share futures contract

In the event that a recognized exchange suspends trading in the underlying share of a share futures contract, then the Bourse may determine a course of action in relation to the share futures contract, including, but not limited to, the suspension or halting in the trading of the contract.

g) Futures contract on carbon dioxide equivalent units with physical and cash settlement

NIL

6812 Last Day of Trading
(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 13.07.98, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 00.00.00)

Unless otherwise determined by the Bourse, the business day on which trading for each contract will terminate shall be as follows:

a) 30-day overnight repo rate futures:

last business day of the contract month

b) 1-month and 3-month Canadian Bankers' Acceptance futures:

i) at 10:00 a.m. (Montréal time) on the second London (Great Britain) bank business day immediately preceding the third Wednesday of the contract month;

ii) if the day as determined by sub-paragraph i) is an exchange or bank holiday in Toronto or Montréal, futures trading shall terminate on the previous bank business day.

c) 5-year and 10-year Government of Canada Bond futures:

on the 7th business day preceding the last business day of the delivery month.

d) Futures contract of the S&P/TSX 60 Stock Index:

the exchange traded day preceding the final settlement day as defined in article 15721 of the Rules.

e) Canadian Share Futures Contracts:

at 4:00 p.m. (Montréal time) on the third Friday of the contract month or if not a business day, the first preceding business day

f) International Share Futures Contract:

the last day of trading on International share futures contracts shall coincide with the last day of trading of the corresponding stock index futures contract traded on a recognized exchange for which the underlying stock is a constituant, or such other day as prescribed by the Bourse.

g) Futures Contracts on S&P/TSX sectorial stock indices:

the exchange traded day preceding the final settlement day as defined in article 15771 of the Rules.

h) Futures contract on carbon dioxide equivalent units with cash settlement:

the third business day preceding the last business day of the contract month or, if not a business day, the first preceding business day.

i) Futures contract on carbon dioxide equivalent units with physical settlement:

the third business day preceding the last business day of the contract month or, if not a business day, the first preceding business day.

6813 Daily Settlement Price
(22.04.88, 08.09.89, 14.09.90, 20.03.91, 13.07.98, 07.09.99, 31.01.01, 00.00.00)

For all futures contracts except futures contracts on carbon dioxide equivalent units with physical and cash settlement, the daily settlement price shall be determined as follows:

a) The settlement price shall be the weighted average of the prices traded in each outright contract month during the closing range. The closing range is defined as the last minute of the regular trading session for the first four (4) quarterly expiry months, and the last two (2) minutes of the regular trading session for the other expiry months. If there is at the close, a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price.

b) If no trade occurs in the closing range, the settlement price shall be a price which reflects an appropriate differential to the settlement price of the previous contract month. In determining the appropriate differential, ~~Floor Officials~~the Bourse shall take into account the information provided by the spread market and the strip market. In the absence of such markets, the settlement price shall be set at a level which reflects the same differential to the settlement price of the previous contract month that existed on the previous day. If there is a higher bid or lower offer than the settlement price so obtained in existence at the close, that bid or offer shall be the settlement price.

c) If such settlement price is not consistent with trades in other months during the day or with market information, ~~Floor Officials, with the advice of the Pit Committee~~the Bourse may establish a settlement price at a level consistent with such other trades or market information and shall prepare a written record setting forth the basis for any modification of such settlement price.

For futures contracts on carbon dioxide equivalent units with physical and cash settlement, the daily settlement price shall be determined as follows:

a) The daily settlement price shall be the weighted average of the prices traded in each outright contract month during the closing range. The closing range is defined as the last 15 minutes of the regular trading session. If there is, at the close, a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price.

b) If no trade occurs during the closing range and there is a higher bid or lower offer than the last traded price, then that best bid or best offer shall be the daily settlement price.

c) If no trade occurs during the closing range and there is a lower bid or higher offer than the last traded price, then the midpoint of the best bid and best offer shall be the daily settlement price.

d) If no trades have occurred during the regular trading session, the daily settlement price shall be the previous day's daily settlement price unless the best bid is above the previous day's daily settlement price or the best offer is below the previous day's daily settlement price, then the daily settlement price will be the higher bid or lower offer.

e) If such settlement price is not consistent with trades in other contract expiries during the day or with market information, the Bourse may establish a settlement price at a level consistent with such other trades or market information and shall prepare a written record setting forth the basis for any modification of such settlement price.

6815 Exchanges for Physicals (E~~.~~F~~.~~P~~.~~)
(08.09.89, 17.10.91, 05.01.94, 19.01.95, 01.05.95, 07.09.99, 31.01.01, 03.05.04, 00.00.00~~7~~)

a) An exchange of ~~physical securities for~~ futures contracts on Government of Canada Bonds, ~~futures contracts, the futures contract~~ on the S&P/TS~~E~~X 60 Stock Index, Canadian or international ~~the~~ ~~S~~shares, ~~Futures Contracts and futures contracts on~~ S&P/TS~~E~~X sectorial stock indexes and on commodities for physical securities or physical underlying (EFP) is~~shall be~~ permitted if such EFP transaction is executed in accordance with the requirements of this article and of related procedures established by the Bourse.

b) An E~~.~~F~~.~~P may be concluded~~summated~~ between two parties if one of the parties is the buyer of the physical securities or physical underlying and the seller of the futures contract, and the other party is the seller of the physical securities or physical underlying and the buyer of the futures contract.

c) The purchase and sale of the futures contract must~~shall~~ be simultaneous with the sale and purchase of a corresponding quantity of the physical securities or physical underlying.

d) For the purposes of this article, the physical securities and the futures contract (bonds for Government of Canada Bond futures contracts, the equivalent number of underlying securities or ~~equivalent~~ index participation units for ~~the~~ S&P/TS~~E~~X 60 Stock Index ~~futures contract~~ and ~~for the~~ S&P/TS~~E~~X sectorial stock indexes futures contracts, ~~and~~ the equivalent number of underlying shares for ~~the S~~share ~~F~~futures contracts and the physical underlying, a by-product of this physical underlying or a related product for commodities futures contracts) constitute an acceptable hedge.

e) An E~~.~~F~~.~~P~~.~~ may be made at such prices that~~as~~ are mutually agreed upon by the two parties to the E~~.~~F~~.~~P. However, the ~~futures leg of E.F.P.s transacted between two different members must be priced within the high and low prices of the trading session during which the E.F.P. is deemed to have been reported to the Exchange~~ price at which the futures contract leg of an EFP transaction is arranged must be fair and reasonable in light of factors such as, but not limited to, the size of such an EFP transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market as well as the general market conditions.

~~From 9:30 a.m. to 4:00 p.m., the equities leg of stock index futures and Canadian Share Futures contracts E.F.P.'s must be priced at the bid quotation at the time the E.F.P. is deemed to have been executed. For EFPs done after the close of the stock market all equities will go through at the last sale price, except where the last sale is outside of the closing quote, in which case it will go through on the bid or offer closest to the last sale.~~

f) Each E~~.~~F~~.~~P~~.~~ must~~shall~~ be reported to the Bourse~~Exchange~~ in accordance~~ing~~ with the~~to~~ procedures set by the Bourse~~Exchange~~. Such report must~~shall~~ be in the form prescribed by the Bourse and must contain all the information required on such prescribed form.~~specify the buyer and the seller of the futures contract, the number of contracts, the time of execution of the E.F.P., and the price of the futures leg in the E.F.P.~~

g) Each E~~.~~F~~.~~P~~.~~ transacted before the deadline for trade input determined by the Bourse must be immediately reported~~submitted~~ to the Bourse~~Exchange~~. Each E~~.~~F~~.~~P~~.~~ transacted after the deadline for trade input must be reported~~submitted~~ to the Bourse~~Exchange~~ no later than~~by~~ 10:00 a.m. (Montré~~e~~al time) on the next trading day~~morning~~ following the execution of the transaction.

~~The Exchange will determine, from time to time, the deadline before which a transaction must be reported to be deemed to have been reported during a trading session for the purposes of article 6815 paragraph e).~~

h) The accounts involved on each side of an EFP transaction must satisfy at least one of the following conditions:

- i) they have different beneficial ownership;
- ii) they have the same beneficial ownership, but are under separate control;
- iii) the accounts are commonly controlled, but involve separate legal entities which may or may ~~have~~ not have the same ~~legal entities~~beneficial ownership.

In cases where the parties to ~~A~~an EFP transaction involve~~with~~ the same legal entity, same beneficial ownership, or separate legal entities under common control, ~~on both sides of the transaction will be permitted provided the following conditions are complied with:~~

~~i) each of the two sides of the transaction must be under separate control; and~~

~~ii)~~ the parties must be able to demonstrate that the EFP transaction was a legitimate arms-length transaction.

~~h~~i) The ~~members and approved persons~~ parties involved in an E~~.~~F~~.~~P~~.~~ transaction~~s~~ must~~shall~~ maintain ~~in Montreal or in the principal office of the member in Canada~~ a full and complete record~~s~~ of the transaction, the actual transfer of possession of the physical securities or the physical underlying and the transfer of funds related thereto. Each ~~member~~ party involved in an E~~.~~F~~.~~P~~.~~ transaction~~s~~ shall produce to the Bourse~~Exchange~~, upon request, all records pertaining to such~~the~~ E~~.~~F~~.~~P~~.s,~~ transaction, including those relating to the purchase and sale of the physical securities or the physical underlying, the transfer of funds related thereto and any record~~log~~ maintained in connection therewith.

~~i~~j) It is prohibited for any ~~member and approved person~~ party to an EFP transaction to effect a transaction which is contrary to the requirements and practices prescribed by the rules, policies and procedures of the Bourse~~principles enunciated in the regulations~~ or to effect such a transaction for the sole purpose of~~and, moreover, which is used to cause any price to be~~ reporting~~ed~~, registering~~ed~~ or recording~~ed~~ a price that~~when~~ is not a bona fide price or of making a transaction which is ~~of the character of~~ a "wash sale", an~~or~~ ~~"~~accommodation trade~~"~~ or a ~~"~~fictitious sale~~"~~.

k) It is strictly prohibited for any party, for both the buyer and the seller, to enter into an EFP transaction to circumvent the contract month roll in the corresponding security or derivative instrument.

~~j~~l) EFP~~'s~~ transactions must at all times~~shall~~ be executed in accordance with such other procedures, terms and conditions that~~prescribed by~~ the Bourse~~Exchange~~ may prescribe from time to time.

Nouvel article 6815B

6815B Substitution d’instruments dérivés hors bourse par des contrats à terme
(00.00.00)

La substitution d’un instrument dérivé hors bourse et/ou d’un contrat swap par des contrats à terme est constituée de deux opérations distinctes impliquant une opération à risque et une opération sur contrats à terme. Au moment où une telle opération est effectuée, les parties impliquées dans l’opération sur les contrats à terme doivent être les mêmes que celles impliquées dans l’opération à risque, et l’acheteur et le vendeur des contrats à terme doivent respectivement être l’acheteur et le vendeur des instruments dérivés hors bourse et/ou des contrats swaps. La partie à risque d’une opération de substitution doit comprendre la valeur sous-jacente au contrat à terme (ou tout instrument dérivé, sous instrument ou instrument apparenté), ou un instrument dérivé hors bourse et/ou un contrat swap qui est apparenté à la valeur sous-jacente du contrat à terme échangé et dont le prix est raisonnablement corrélé avec cette valeur sous-jacente. La quantité ou la valeur de la partie à risque d’une substitution d’instruments dérivés hors bourse par des contrats à terme doit être approximativement équivalente à la quantité ou à la valeur couverte par le contrat à terme.

New Article 6815B

6815B Substitution of over-the-counter derivative instruments for futures contracts
(00.00.00)

A substitution of an over-the-counter (OTC) derivative instrument and/or swap agreement for futures contracts consists of two discrete transactions: a risk transaction and a futures contract transaction. At the time such transaction is effected, the parties to the futures contract transaction must be the same parties to the risk transaction and the buyer and the seller of the futures contract must be, respectively, the buyer and the seller of the OTC derivative instrument and/or swap agreement. The risk component of the substitution transaction must involve the interest underlying the futures contracts (or any derivative product, by-product or related product) or an OTC derivative instrument and/or swap agreement that is related to and that has a reasonable price correlation with the underlying interest of the futures contract being exchanged. The quantity or value covered by the risk component of the substitution of over-the-counter derivative instruments for futures contracts must be approximately equivalent to the quantity or value covered by the futures contract transaction.

RULE FIFTEEN
FUTURES CONTRACTS SPECIFICATIONS

Section 15001 - 15050
General Provisions

15001 Scope of Rule
(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 00.00.00)

This Rule is limited in application to futures trading of the following ~~financial~~ instruments:

a) the overnight repo rate;

b) 1-month Canadian bankers' acceptance;

c) 3-month Canadian bankers' acceptance;

d) 2-year Government of Canada Bond;

e) 5-year Government of Canada Bond;

f) 10-year Government of Canada Bond;

g) the S&P/TSX 60 Stock Index;

h) designated S&P/TSX sectorial stock indices;

i) Canadian and International stocks;~~.~~

j) Carbon dioxide equivalent units.

The procedures for dealing with clients, trading, clearing, settlement, delivery and any other matters not specifically covered herein shall be governed by the regulations of the Bourse and the General Regulations of the clearing corporation.

Section 15931 – 15950
FUTURES CONTRACTS ON
CARBON DIOXIDE EQUIVALENT (CO_2e) UNITS
WITH PHYSICAL SETTLEMENT

Sub-section 15931 – 15948
Specific Trading and Delivery Provisions

15931 Definitions
(00.00.00)

"Carbon dioxide equivalent (CO_2e)" means a unit of measure used to allow the addition of or the comparison between gases that have different global warming potentials.

"Carbon dioxide equivalent unit" means any right, benefit, title or interest recognized by a governmental or legislative authority in Canada, associated partly or in its entirety to a reduction of the emissions of GHG expressed in carbon dioxide equivalent.

15932 Contract Expirations
(00.00.00)

Unless otherwise determined by the Bourse, the contract expiries available for trading in futures contracts on carbon dioxide equivalent units with physical settlement shall be as indicated in article 6804 of Rule Six of the Bourse.

15933 Trading Unit
(00.00.00)

Unless otherwise determined by the Bourse, the unit of trading for futures contracts on carbon dioxide equivalent units with physical settlement shall be as indicated in article 6801 of Rule Six of the Bourse.

15934 Currency
(00.00.00)

Trading, clearing and settlement for futures contracts on carbon dioxide equivalent units with physical settlement shall be in Canadian dollars.

15935 Price Quotation
(00.00.00)

Unless otherwise determined by the Bourse, bids and offers for futures contracts on carbon dioxide equivalent units with physical settlement shall be as indicated in article 6802 of Rule Six of the Bourse.

15936 Minimum Price Fluctuation Unit
(00.00.00)

Unless otherwise determined by the Bourse, the minimum price fluctuation unit for futures contracts on carbon dioxide equivalent units with physical settlement shall be as indicated in article 6807 of Rule Six of the Bourse.

15937 Daily Price Limit

(00.00.00)

There shall be no daily price limit for futures contracts on carbon dioxide equivalent units with physical settlement.

15938 Position Limits
(00.00.00)

The maximum net long or net short position in each designated futures contract on carbon dioxide equivalent units with physical settlement which a person may own or control shall be as follows:

Position limit for all contract expiries combined for each futures contract on carbon dioxide equivalent units with physical settlement:

The greater of a maximum number of contracts to be determined by the Bourse, or of 20% of the average daily open interest for all contract expiries during the preceding three calendar months.

In establishing position limits, the Bourse may apply specific limits to one or more rather than all approved participants or clients, if deemed necessary.

15939 Position Reporting Threshold
(00.00.00)

Approved participants shall report to the Bourse all positions, as mentionned in article 15938, in any contract expiry, which exceed 250 futures contracts on carbon dioxide equivalent units with physical settlement, or such other number as may be determined by the Bourse, in such form and in such manner as shall be prescribed by the Bourse.

15940 Physical Settlement
(00.00.00)

Physical settlement of the futures contracts on carbon dioxide equivalent units underlying units of carbon dioxide equivalent shall be made in the manner prescribed in articles 15942 to 15948 of this Rule or by the clearing corporation.

15941 Last Day of Trading
(00.00.00)

The last day of trading of futures contracts on carbon dioxide equivalent units with physical settlement will be the third business day preceding the last business day of the contract month or, if not a business day, the first preceding business day.

15942 Physical Settlement Standards
(00.00.00)

a) For futures contracts on carbon dioxide equivalent units with physical settlement, the only carbon dioxide equivalent units acceptable for physical settlement shall be those specified by the Bourse from time to time.

b) Before a futures contracts on carbon dioxide equivalent units with physical settlement is listed for trading, the Bourse shall have the right to exclude from the physical settlement of such futures contract any carbon dioxide equivalent unit it deems appropriate to exclude, even if such unit meets all the standards specified by the Bourse.

15943 Physical Settlement Procedure
(00.00.00)

a) Approved participants must apply the assignment process used by the clearing corporation to assign physical settlements to each of their accounts. In order that the physical settlement procedure of the clearing corporation not be impaired, approved participants shall keep throughout the physical settlement period, an up-to-date list of the purchase and sale dates of all open positions for that contract month.

b) Only an approved participant holding a short position in a futures contract on carbon dioxide equivalent units can initiate the physical settlement process.

c) All buyers' and sellers' positions still open in futures contracts on carbon dioxide equivalent units with physical settlement after trading has ceased in the contract shall be settled by physical settlement.

d) In the case where a short position is still open in futures contracts on carbon dioxide equivalent units with physical settlement after trading has ceased in that futures contract, and where the approved participant has not initiated the physical settlement process, the clearing corporation shall substitute itself for the approved participant in initiating such process.

e) An alternate physical settlement procedure is available to buyers and sellers who have been matched by the clearing corporation subsequent to the termination of trading in the expired contract. If buyer and seller agree to consummate the physical settlement under terms different from those prescribed in the contract specifications, they may proceed on that basis after submitting a notice of their intention to the clearing corporation.

15944 Submission of Physical Settlement Notice
(00.00.00)

To initiate the physical settlement process of a futures contract on carbon dioxide equivalent units with physical settlement, an approved participant holding a seller's position must submit a physical settlement notice to the clearing corporation on the last trading day.

15945 Assignment of Physical Settlement Notice
(00.00.00)

a) The assignment of a physical settlement notice to an approved participant holding a long position shall be done by the clearing corporation in the manner set forth by the clearing corporation.

b) Approved participants holding assigned long positions in futures contracts on carbon dioxide equivalent units with physical settlement shall receive a physical settlement notice from the clearing corporation on the business day following the submission of physical settlement notices by approved participants holding short positions in such futures contracts.

15946 Physical Settlement Day
(00.00.00)

Physical settlement in respect of futures contracts on carbon dioxide equivalent units with physical settlement shall be done on the third business day following the submission of physical settlement notices by the approved participants holding short positions, or on any other day as determined by the clearing corporation.

15947 Execution Default
(00.00.00)

An execution default may occur if the seller does not transfer the acceptable units within the prescribed delays or if the buyer does not accept the acceptable units within the prescribed delays. All execution defaults from approved participants in respect to physical settlement procedures shall carry the imposition of a penalty, as determined from time to time by the Bourse.

15948 Emergencies, Acts of God, Actions of Governments
(00.00.00)

In the eventuality that a physical settlement operation cannot be completed because of a strike, a fire, an accident, a government action, an act of God or any other emergency situation, the holder of a long position or a short position in futures contracts on carbon dioxide equivalent units with physical settlement shall immediately notify the Bourse and the clearing corporation. In the eventuality that the Bourse or the clearing corporation finds that an immediate action is necessary, a special meeting of the Board of Directors of the Bourse shall be called on the matter and any decision rendered in such circumstances shall be binding on all parties holding long or short positions in futures contracts on carbon dioxide equivalent units with physical settlement. If the Board of Directors of the Bourse decides that an emergency situation is in progress, the Board of Directors of the Bourse shall take all necessary actions in the circumstances, and the decision of the Board of Directors of the Bourse shall be binding on all parties holding long or short positions in futures contracts on carbon dioxide equivalent units with physical settlement.

In the specific situation where the emission trading system related to the carbon dioxide equivalent unit is no longer scheduled to proceed, is not implemented by any governmental or legislative authority in Canada or is to be discontinued by any governmental or legislative authority in Canada, the Board of Directors of the Bourse shall decide on the cash settlement of the futures contracts on carbon dioxide equivalent units at a price that reflects a minimum quality standard established by recognized organizations to be determined from time to time by the Bourse.

Section 15951 – 15970
FUTURES CONTRACTS ON
CARBON DIOXIDE (CO_2e) EQUIVALENT UNITS
WITH CASH SETTLEMENT

Sub-section 15951 – 15962
Specific Trading Provisions

15951 Definitions
(00.00.00)

"Carbon dioxide equivalent (CO_2e)" means a unit of measure used to allow the addition of or the comparison between gases that have different global warming potentials.

"Carbon dioxide equivalent unit" means any right, benefit, title or interest recognized by a governmental or legislative authority in Canada, associated partly or in its entirety to a reduction of the emissions of GHG expressed in carbon dioxide equivalent.

15952 Contract Expirations
(00.00.00)

Unless otherwise determined by the Bourse, the contract expiries available for trading in futures contracts on carbon dioxide equivalent units with cash settlement shall be as indicated in article 6804 of Rule Six of the Bourse.

15953 Trading Unit
(00.00.00)

Unless otherwise determined by the Bourse, the unit of trading for futures contracts on carbon dioxide equivalent units with cash settlement shall be as indicated in article 6801 of Rule Six of the Bourse.

15954 Currency
(00.00.00)

Trading, clearing and settlement for futures contracts on carbon dioxide equivalent units with cash settlement shall be in Canadian dollars.

15955 Price Quotation
(00.00.00)

Unless otherwise determined by the Bourse, bids and offers for futures contracts on carbon dioxide equivalent units with cash settlement shall be as indicated in article 6802 of Rule Six of the Bourse.

15956 Minimum Price Fluctuation Unit
(00.00.00)

Unless otherwise determined by the Bourse, the minimum price fluctuation unit for futures contracts on carbon dioxide equivalent units with cash settlement shall be as indicated in article 6807 of Rule Six of the Bourse.

15957 Daily Price Limit

(00.00.00)

There shall be no daily price limit for futures contracts on carbon dioxide equivalent units with cash settlement.

15958 Position Limits
(00.00.00)

The maximum net long or net short position in each designated futures contract on carbon dioxide equivalent units with cash settlement which a person may own or control shall be as follows:

Position limit for all contract expiries combined for each futures contract on carbon dioxide equivalent units with cash settlement:

The greater of a maximum number of contracts to be determined by the Bourse, or of 20% of the average daily open interest for all contract expiries during the preceding three calendar months.

In establishing position limits, the Bourse may apply specific limits to one or more rather than all approved participants or clients, if deemed necessary.

15959 Position Reporting Threshold
(00.00.00)

Approved participants shall report to the Bourse all positions, as mentionned in article 15958, in any one contract expiry, which exceed 250 futures contracts on carbon dioxide equivalent units with cash settlement, or such other number as may be determined by the Bourse, in such form and in such manner as shall be prescribed by the Bourse.

15960 Cash Settlement
(00.00.00)

Cash settlement of futures contracts on carbon dioxide equivalent units with cash settlement shall be through the clearing corporation. The final settlement procedures are those stipulated in articles 15963 to 15970.

15961 Last Day of Trading
(00.00.00)

The last day of trading of futures contracts on carbon dioxide equivalent units with cash settlement will be the third business day preceding the last business day of the contract month or, if not a business day, the first preceding business day.

15962 Emergencies, Acts of God, Actions of Governments
(00.00.00)

In the eventuality that the final cash settlement procedures cannot be completed because of a strike, a fire, an accident, a government action, an act of God or any other emergency situation, the holder of a long position or a short position in futures contracts on carbon dioxide equivalent units with cash settlement shall immediately notify the Bourse and the clearing corporation. In the eventuality that the Bourse or the clearing corporation finds that an immediate action is necessary, a special meeting of the

Board of Directors of the Bourse shall be called on the matter and any decision rendered in such circumstances shall be binding on all parties holding long or short positions in futures contracts on carbon dioxide equivalent units with cash settlement. If the Board of Directors of the Bourse decides that an emergency situation is in progress, the Board of Directors of the Bourse shall take all necessary actions in the circumstances, and the decision of the Board of Directors of the Bourse shall be binding on all parties holding long or short positions in futures contracts on carbon dioxide equivalent units with cash settlement.

In the specific situation where the emission trading system related to the carbon dioxide equivalent unit is no longer scheduled to proceed, is not implemented by any governmental or legislative authority in Canada or is to be discontinued by any governmental or legislative authority in Canada, the Board of Directors of the Bourse shall decide on the cash settlement of the futures contracts on carbon dioxide equivalent units at a price that reflects a minimum quality standard established by recognized organizations to be determined from time to time by the Bourse.

Sub-section 15963 - 15970
Final Settlement Procedures

15963 Final Cash Settlement Date
(00.00.00)

The final cash settlement date of a given futures contract on carbon dioxide equivalent units with cash settlement upon expiry shall be the last business day of the contract month, provided it be a business day. If not, the final settlement date shall be the first preceding business day.

15964 Cash Settlement Procedures
(00.00.00)

In the case of futures contracts on carbon dioxide equivalent units with cash settlement:

a) On the last day of trading, open futures contracts on carbon dioxide equivalent units will be marked to market based on the daily settlement price. A final settlement price will be determined on the final settlement date.

b) On the final settlement date, a final settlement price, as determined by the Bourse, shall be used to settle all open positions in futures contracts on carbon dioxide equivalent units with cash settlement.

15965 Failure to Perform
(00.00.00)

Any failure on the part of an approved participant to comply with the aforementioned cash settlement procedures shall result in the imposition of such penalties as may be deemed appropriate in the circumstances by the Bourse.

Futures Contract on carbon dioxide equivalent (CO_2e) units – Cash Settlement

Specifications

Underlying	Canadian carbon dioxide equivalent unit as defined by a governmental or legislative authority in Canada. Each unit is an entitlement to emit one metric ton of carbon dioxide equivalent (CO_2e).
Trading Unit	One contract is equivalent to 100 Canadian CO_2e units.
Contract Expiries	Daily, monthly, quarterly and annual expiries
Price Quotation	Canadian dollars and cents per metric ton
Minimum Price Fluctuation	CA$ 0.01 per metric ton = CA$ 1 per contract
Last Trading Day / Expiration Day	Trading ceases at 4:00 p.m. (Montréal Time) on the third business day preceding the last business day of the contract month, providing it be a business day, if not, the first preceding business day.
Contract Type	Cash Settlement.
Daily Settlement Price	For each contract expiry, the daily settlement price will be calculated based on the following criteria: ▪ The volume weighted average (VWAP*) of all futures contracts trades executed within the 15 minute period from 3:45 p.m. to 4:00 p.m. (Montréal Time). If there is, at the close, a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price. ▪ If no trades occur within the 15 minute period from 3:45 p.m. to 4:00 p.m. (Montréal Time) and the best bid is above the last trade price or the best offer is below the last trade price, then the closing price will be the best bid or the best offer price. ▪ If no trades occur within the 15 minute period from 3:45 p.m. to 4:00 p.m. (Montréal Time) and the best bid is below the last trade price or the best offer is above the last trade price, then the closing price will be the midpoint of the best bid and the best offer price. ▪ If no trades occur in the trading session, the closing price is the previous day's closing price unless the best bid is above the previous day's closing price or the best offer is below the previous day's closing price, then the closing price will be the best bid or best offer price. The Bourse reserves the right to take into account other factors in determining daily settlement prices. ** VWAP calculation methodology :* *Sum (Trade Volume * Trade Price) divided by Total Trade Volume (minus EFP, EFR, Substitution and Block Trades) for each contract month within the 15 minute period.*
Final Settlement Price	Two Alternatives : Method I- Market-On-Close based methodology: The final settlement price is calculated based on the average bid prices for one Canadian CO_2e unit as quoted to the Bourse on the last trading day at 4:00 p.m. (Montréal Time), excluding the highest and lowest values. To calculate the final settlement price, the Bourse will obtain no less than 6 quotations (excluding the highest and lowest values) on the last trading day at 4:00 p.m. (Montréal Time) from a list of Large Industrial Emitters in the Canadian market. Method II- Index based methodology: The contract is cash settled against an index based on the monthly average of the daily spot price of Canadian CO_2e units. The daily spot prices are calculated based on a VWAP method ("Volume Weighted Average Price") which consists of a weighted average of the trades on the spot market for a given day in the reference month.
Exchange for Physical / Exchange for Risk / Substitution of Over-The-Counter Derivative Instruments for Futures Contracts	Exchange for Physical (EFP) and Exchange for Risk (EFR) facilities are available in accordance with the Rules of the Bourse. An EFP and an EFR work on the basis that the parties involved in the transaction agree to exchange a physical position or over-the-counter (OTC) position against a position in a futures contract listed on the Bourse. A substitution of over-the-counter derivative instruments for futures contracts works on the basis that the parties involved in the transaction agree to substitute an over-the-counter (OTC) derivatives position for a position in a futures contract listed on the Bourse.
Reporting Level	250 contracts

Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodic changes.
Daily Price Limit	None
Trading Hours	9:30 a.m. to 4:00 p.m. (Montréal Time)
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC)
Ticker Symbol	To be determined

Futures Contract on carbon dioxide equivalent (CO_2e) units – Physical Settlement

Underlying

Canadian carbon dioxide equivalent unit as defined by a governmental or legislative authority in Canada. Each unit is an entitlement to emit one metric ton of carbon dioxide equivalent (CO_2e).

Trading Unit

One contract is equivalent to 100 Canadian CO_2e units.

Contract Expiries

Annual expiries

Price Quotation

Canadian dollars and cents per metric ton

Minimum Price Fluctuation

CA$ 0.01 per metric ton = CA$ 1 per contract

Last Trading Day

Trading ceases at 4:00 p.m. (Montréal Time) on the third business day preceding the last business day of the contract month, providing it be a business day, if not, the first preceding business day.

Contract Type

Physical settlement.

Daily Settlement Price

For each contract expiry, the daily settlement price will be calculated based on the following criteria:

- The volume weighted average (VWAP*) of all futures contracts trades executed within the 15 minute period from 3:45 p.m. to 4:00 p.m. (Montréal Time). If there is, at the close, a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price.
- If no trades occur within the 15 minute period from 3:45 p.m. to 4:00 p.m. (Montréal Time) and the best bid is above the last trade price or the best offer is below the last trade price, then the closing price will be the best bid or the best offer price.
- If no trades occur within the 15 minute period from 3:45 p.m. to 4:00 p.m. (Montréal Time) and the best bid is below the last trade price or the best offer is above the last trade price, then the closing price will be the midpoint of the best bid and the best offer price.
- If no trades occur in the trading session, the closing price is the previous day's closing price unless the best bid is above the previous day's closing price or the best offer is below the previous day's closing price, then the closing price will be the best bid or best offer price.

The Bourse reserves the right to take into account other factors in determining daily settlement prices.

** VWAP calculation methodology :*
*Sum (Trade Volume * Trade Price) divided by Total Trade Volume (minus EFP, EFR, Substitution and Block Trades) for each contract month within the 15 minute period.*

Physical Settlement

The contracts are physically settled by the transfer of Canadian CO_2e units at the designated registry via the clearing corporation. A delivery notice shall be submitted before such time set by the clearing corporation on the last trading day. Physical settlement shall be completed on the third business day following the submission of the delivery notice.

Eligible Canadian CO_2e units for physical settlement are:
i) Regulated emitters' credits, and / or
ii) Offset credits.

In the case of a shortage of Canadian CO_2e units or in the event that the designated registry is not in place at the expiration of the contract, the contract will be settled in cash.

Alternate Physical Settlement Procedure

An alternate physical settlement procedure is available to buyers and sellers who have been matched by the clearing corporation subsequent to the termination of trading in the expired contract. If buyer and seller agree to consummate the physical settlement under terms different from those prescribed in the contract specifications, they may proceed on that basis after submitting a notice of their intention to the clearing corporation.

Exchange for Physical / Exchange for Risk / Substitution of Over-The-Counter Derivative Instruments for Futures Contracts

Exchange for Physical (EFP) and Exchange for Risk (EFR) facilities are available in accordance with the Rules of the Bourse. An EFP and an EFR work on the basis that the parties involved in the transaction agree to exchange a physical position or over-the-counter (OTC) position for an on-exchange futures contract position.

A substitution of over-the-counter derivative instruments for futures contracts works on the basis that the parties involved in the transaction agree to substitute an over-the-counter (OTC) derivatives position for an on-exchange futures contract position.

Reporting Level	250 contracts
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodic changes.
Daily Price Limit	None
Trading Hours	9:30 a.m. to 4:00 p.m. (Montréal Time)
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC)
Ticker Symbol	To be determined

Exchange for Risk: List of permissible OTC derivative instruments

	Bond Futures	Short-Term Interest Rate Futures	Stock Index Futures/ Single Stock Futurees	Commodities Futures~~Equity / Index Options~~
Vanilla Interest Rate Swaps	√	√		
Equity Swaps			√	~~√~~
Commodities Swaps or Forwards~~Commodities Swaps~~				√
Forward Rate Agreements - FRAs		√		
OTC Options and Options Strategies ~~on any of the OTC instruments above~~	√	√	√	~~√~~

The following outlines the characteristics of OTC derivative instruments that would be acceptable for EFR transaction purposes.

Swaps:

Interest rate

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for~~comprised of~~ regular fixed rate payments against regular floating rate payments;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC interest rate swap~~s~~ must be ~~highly~~ reasonably correlated with an $R^2 = 0.90$ or greater so that the futures contract is~~are~~ a suitable instrument for hedging the OTC derivative~~s~~ instrument transactions. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, -if weekly price data are used, for a period of at least one (1) year.

Equiti~~esy~~ and Indices

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for~~comprised of~~ regular fixed rate payments or regular floating rate payments against the positive or negative performance of a basket of securities or a stock index;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC equity or index swap~~s~~ must be ~~highly~~ reasonably correlated with an $R^2 = 0.90$ or greater so that the futures contract ~~are~~ is a suitable instrument for hedging the OTC derivative~~s~~ instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Swaps or forwards on Commodities:

- written under the terms of an ISDA® Master Agreement;

- The OTC commodities swap or forward must be reasonably correlated with an $R^2 = 0.80$ or greater so that the futures contract is a suitable instrument for hedging the OTC derivatives instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Forward Rate Agreements (FRAs):

- conventional FRA;
- written under the terms of an ISDA® Master Agreement;
- predetermined interest rate;
- agreed start/end date;
- have a defined interest (repo) rate.

OTC Options and OTC Option strategies:

- Any individual or combination of OTC~~stock and~~ equity or stock index option~~s~~ positions ~~underlying an OTC derivative~~ can form the risk transaction component of an EFR transaction against any of the Bourse's stock index or single stock futures contracts.
- Any individual or combination of OTC bond, interest rate swap or FRA options (e.g. caps, floors, collars) ~~underlying an OTC derivative~~ can form the risk component of an EFR transaction against any of the Bourse's interest rate futures contracts

Bonds ~~Underlying an OTC derivative~~ used in an EFR ~~T~~transaction must have the following characteristics:

- fixed coupon rate;
- bullet maturity issue (a coupon paying bond with no repayment of principal until maturity);
- no embedded optionality or early redemption features;
- an ISIN code;
- fixed principal amount;
- denominated in the currency of a G7 member country.

Stock Baskets ~~Underlying an OTC derivative~~ used in an EFR ~~T~~transaction must have the following characteristics:

- be ~~highly~~ reasonably correlated to the ~~underlying~~ index ~~of a~~underlying the futures contract with an $R^2 = 0.90$ or greater and the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if ~~for~~ weekly price data is used, for a period of at least one (1) year;
- represent at least 50% of the weight of the~~underlying~~ index ~~of a~~underlying the futures contract ~~by weight;~~ or~~,~~ include at least 50% of the stocks comprised in~~of~~ the ~~underlying~~ index underlying the~~of a~~ futures contract;
- have a notional value ~~fairly~~ equ~~al~~ivalent to the value of the futures contract component of the EFR transaction;

- exchange traded funds (ETFs) are acceptable provided that they mirror stock index products traded on the Bourse.

Exchange For Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC derivative instruments for futures contracts (Substitution)
Reporting Form
General Information

Individual submitting report

Name:*

Title:*

Approved participant:*

SAM authorized person executing EFP / EFR / Substitution transaction

Name:*

SAM user id:*

Phone:*

Fax:

~~Information on the Physical Exchange~~Details of the EFP / EFR / Substitution

Counterparty name:*

Trade date and time:* DD

hh : 00 a.m.

Futures contract component

Symbol:*

Quantity:*

Contract month & year:* MM - YY

Buyer:*

Seller:*

EFP / EFR Price ~~used for EFP~~:*

Cash Component of EFP / Risk Component of EFR / Risk Component of Substitution

Description:*

Quantity or:/ Value*

Buyer:*

Seller:*

Applicable market value per unit:*

~~Comments~~Additional Details :

Envoyer

The transmission of the above information to the Bourse and the subsequent validation and dissemination of the transaction by the Market Monitoring Department will not preclude the Bourse from initiating any analysis and/or investigation to ensure that the transaction has been made in accordance with the requirements of the Rules of the Bourse or of the Procedure for the Execution of EFP / EFR / Substitution Transactions. If, following such analysis or investigation, it appears that the transaction was not in full compliance with applicable regulatory requirements, the Bourse has the discretion to initiate a disciplinary process.

Bourse de Montréal

PROCEDURE FOR THE EXECUTION AND REPORTING OF EXCHANGE FOR PHYSICAL (EFP) TRANSACTIONS, EXCHANGE FOR RISK (EFR) TRANSACTIONS AND SUBSTITUTION OF OTC DERIVATIVE INSTRUMENTS FOR FUTURES CONTRACTS TRANSACTIONS

The purpose of the following procedure is to explain as fully as possible the requirements of article 6815 of the Rules of Bourse de Montréal Inc. (the Bourse) relating to the execution of transactions involving: a) the exchange of futures contracts for a corresponding cash position (Exchange for Physical (EFP) transactions); b) article 6815A of the Rules of the Bourse relating to the execution of transactions involving the exchange of futures contracts for a corresponding over-the-counter derivative~~s~~ instrument (Exchange for Risk (EFR) transactions); and c) article 6815B of the Rules of the Bourse relating to the execution of transactions involving the substitution of an over-the-counter derivative instrument for futures contracts. Approved participants must ensure that all of their employees who are involved in the execution of this type of transactions are fully aware of this procedure. Any violation of the requirements set forth in articles 6815, ~~article~~ 6815A and 6815B of the Rules of the Bourse and in this procedure could result in disciplinary action being taken by the Bourse.

Exchanges for Physicals (EFP)

An EFP is a transaction whereby two parties enter into an agreement in which one party purchases a cash market position and simultaneously sells a corresponding futures contract~~s~~ position and the other party sells the cash market position and simultaneously purchases the corresponding futures contract position.

The Bourse currently permits EFP transactions on the following futures contracts: Ten-Year Government of Canada Bond futures contract~~s~~ (CGB), Two-Year Government of Canada Bond futures contract~~s~~ (CGZ), S&P Canada 60 Index futures contract~~s~~ (SXF), ~~;~~ ~~and~~and sectorial index futures contracts (SXA, SXB, SXH and SXY) and futures contracts on carbon dioxide equivalent (CO_2e) units. ~~and futures contracts on physical commodities.~~

Exchange for Risk (EFR)

An EFR is a transaction whereby two parties enter into an agreement in which one party purchases an over-the-counter derivative~~s~~ instrument and simultaneously sells a corresponding futures contract~~s~~ and the other party sells the over-the-counter derivative~~s~~ instrument and simultaneously purchases the corresponding futures contract.

The Bourse currently permits EFR transactions on the following futures contracts: Government of Canada Bond futures contracts (CGB and CGZ), ~~S~~short-term interest rate futures contracts (BAX and ONX), ~~and S~~stock index futures contracts (SXF, SXA, SXB, SXH and SXY) and futures contracts on carbon dioxide equivalent (CO_2e) units.~~, Share futures contracts and futures contracts on physical commodities.~~

Substitution of an OTC derivative instrument for futures contracts (Substitution)

A Substitution is a transaction whereby two parties enter into an agreement to substitute an over-the-counter derivatives position for a corresponding futures position. The party who is the buyer of the over-the-counter derivative instrument substitutes this position and buys the corresponding futures contract and the other party who is the seller of the over-the-counter derivative instrument substitutes this position and sells the corresponding futures contract.

The Bourse currently permits Substitution transactions on futures contracts on carbon dioxide equivalent (CO_2e) units.

Pricing the Cash component of an EFP, the Risk component of an EFR or the Risk component of a Substitution

The cash component of an EFP, the risk component ~~(over-the-counter derivatives instrument)~~ of an EFR or the risk component of a Substitution is priced at such level that is mutually agreed upon by the two parties to the transaction.

The futures contract leg of an EFP, ~~transacted between two different approved participants must be priced within the high and low prices~~ an EFR or a Substitution must be~~is~~ priced at a ~~such level that must be~~ fair and reasonable level in light of factors such as, but not limited to, the size of such an EFP, EFR or Substitution transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market and~~s well as~~ the general market conditions prevailing at the time~~of the trading session during which~~ the EFP, ~~or~~ EFR or Substitution transaction is executed.~~is deemed to have been reported to the Bourse.~~

The cash component of an EFP, the risk component of an EFR or the risk component of a Substitution transaction must be the futures contract underlying interest, a by-product of this underlying interest or a similar product that is reasonably correlated to the futures contract being exchanged. Approved participants who are parties to an EFP, an EFR or a Substitution transaction may be required to demonstrate that the cash market component of an EFP, the risk component of an EFR or the risk component of a Substitution and the futures contract position are sufficiently correlated to make the transaction acceptable to the Bourse.

Also, the number of ~~the~~ futures contracts exchanged must be approximately equivalent to the underlying quantity or value of the related cash market position of an EFP, the risk component of an EFR or the risk component of a Substitution being exchanged. Approved participants that are parties to an EFP, EFR or a Substitution transaction may be required to demonstrate such equivalency.

Acceptable EFP, EFR and Substitution Transactions

In order to have an EFP, EFR or a Substitution transaction accepted by the Bourse, the transaction must satisfy the following conditions:

- There must be separate but integrally related ~~cash and~~ futures contracts and cash (in the case of an EFP) or risk component (in the case of an EFR or Substitution) transactions.

- The transaction must be done between two separate accounts that must satisfy at least one of the following criteria:
  - accounts have different beneficial ownership;
  - accounts have the same beneficial ownership but are under separate control; or
  - accounts are under a common control but involve separate legal entities which may or may not have the same beneficial ownership.

  If the parties to an EFP, EFR or a Substitution transaction involve the same legal entity, same beneficial owner or separate legal entities under common control, the approved participant (or the parties themselves) must be able to demonstrate that the EFP, EFR or Substitution transaction is a legitimate arm's length transaction.

- The cash market instrument leg of the EFP or the risk component leg of an EFR transaction must provide for a transfer of ownership of the cash market instrument of an EFP or of the over-the-counter derivative instrument of the EFR to the buyer of this instrument and the delivery of this instrument must take place within a reasonable period of time (in accordance with cash market or over-the-counter practice).

- The relation between the prices of the futures contract and of the cash instrument leg~~s~~ of the EFP or the risk component leg of the EFR transaction and the relevant prices in either market must be established.

- If he does not have actual possession of the cash instrument of the EFP or of the over-the-counter derivative instrument of the EFR before the execution of the EFP or EFR transaction, the seller of thise cash instrument or ~~the seller of the~~ over-the-counter derivative instrument ~~seller~~ must be able to demonstrate his ability to satisfy his delivery obligation.

Acceptable Cash Components for the purpose of an EFP Transaction

In order to have an EFP transaction accepted by the Bourse, the cash component of the transaction must satisfy the following conditions:

- **For interest rate~~s~~ futures contracts (CGB and CGZ):** all maturities of Government of Canada fixed income bonds that are reasonably correlated to the futures contract being exchanged. Approved participants involved in an EFP transaction may be required to demonstrate that the related cash bond position and the futures contract position are reasonably correlated.

- **For stock index futures contracts (SXF and sectorial indexes):** stock baskets must be ~~highly~~ reasonably correlated to the underlying index with a correlation coefficient (R^2) of 0.90 or more. Furthermore, these stock baskets must represent a weight of at least 50% of the underlying index or must include at least 50% of the securities of the underlying index. The notional value of the basket must be fairly equal to the value of the futures contract component of the trade. Exchange Traded Funds (iShares™) are also acceptable, provided they mirror the index futures contract against which the EFP transaction is made.

Permissible Over-the-Counter Derivative~~s~~ Instruments for the purpose of an EFR Transaction

A list of permissible over-the-counter derivative~~s~~ instruments for the purpose of effecting an EFR transaction is included in Attachment I.

Permissible Over-the-Counter Derivatives Instruments for the purpose of a Substitution Transaction

- **For futures contracts on carbon dioxide equivalent (CO_2e) units:** over-the-counter derivatives instruments on carbon dioxide equivalent units that are reasonably correlated to the futures contract being substituted. Approved participants involved in a Substitution transaction may be required to demonstrate that the related over-the-counter derivatives instrument and the futures contract position are reasonably correlated.

Reporting an EFP,~~-~~ EFR or a Substitution transaction to the Bourse

EFP, EFR and Substitution transactions must be reported to the Bourse's Market Monitoring Department for approval and subsequently input into the Montréal Automated System (SAM). Approved participants for both the seller and buyer must complete and submit to the Market Monitoring Department the EFP / EFR / Substitution reporting form prescribed by the Bourse. This form is available on the website of the Bourse at http://www.m-x.ca/efp_formulaire_en.php. If the EFP, EFR or Substitution transaction is executed before the closing of the trading session of the futures contract involved in the transaction, the EFP / EFR / Substitution reporting form must be submitted immediately upon the execution of the transaction. If the EFP, EFR or Substitution transaction is made after the closing of the trading session, the EFP / EFR / Substitution reporting form must be submitted no later than 10:00 a.m. (Montréal time) on the next trading day.

If the EFP / EFR / Substitution reporting form is not accurately filled out with all the relevant information required by the Market Monitoring Department~~al~~ of the Bourse, the transaction will not be approved neither recorded in SAM and the approved participant will have to resubmit a new EFP / EFR / Substitution reporting form correctly completed.

Once correctly completed EFP / EFR / Substitution reporting forms have been received, the Market Monitoring Department will validate the transaction. The Bourse has the discretion to refuse an EFP, EFR- or a Substitution transaction if it deems that it is not in compliance with the requirements, as the case may be, of articles 6815, ~~or~~ 6815A or 6815B of the Rules of the Bourse or of this procedure. In case of refusal, the Market Monitoring Department will ensure that the approved participant(s) involved in the EFP, EFR or Substitution transaction will be promptly informed of such refusal and of the reasons for it.

Once an EFP, an EFR or a Substitution transaction has been validated and has been entered into SAM by the Market Monitoring Department, the following information with respect to thi~~s~~e ~~EFP or EFR~~ transaction will be disseminated by the Bourse on its website at http://www.m-x.ca/dailycrosses_en.php.

- Date and product description (code);
- Contract month(s); and
- Volume of each contract month.

Trade validation and market dissemination by the Bourse of an EFP, EFR or a Substitution transaction will not preclude the Bourse from initiating any investigation and, as the case may be, disciplinary procedures in the event that the transaction is subsequently found to have been made other than in accordance with the requirements of article 6815, article 6815A and article 6815B of the Rules of the Bourse or of this procedure.

Audit Trail~~s~~ Requirements for EFP, EFR and Substitution Transactions

Approved participants who enter into an EFP, EFR or a Substitution transaction must maintain all documents relevant to the futures contracts and corresponding cash market ~~position~~ transactions~~,~~ and must be able to promptly provide copies of such documents to the Regulatory Division of the Bourse upon request. Documents that may be requested include, but are not limited to, the following:

- Futures contracts order tickets;
- Futures contracts account statements;
- Documentation customarily generated in accordance with the cash market, over-the-counter or other relevant market practices such as cash account statements, trade confirmation~~s~~ statements, ISDA® Master Agreements or other documents of title;
- Third party documentation to support proof of payment or allowing to verify that the ownership title of the related cash market position or, as the case may be, of the related over-the-counter derivative instrument position was transferred from the seller to the buyer. This may include, but is not limited to canceled checks, bank statements; cash account statements and cash instruments clearing corporation documents (e.g.: CDS Depository and Clearing Services Inc.~~Canadian Depository for Securities – CDS~~).

All futures contracts order tickets must clearly indicate the time of execution of the EFP, EFR- or Substitution transactions.

Montréal
Exchange

PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

a) Once a block trade has been arranged, in accordance with the predetermined minimum quantity threshold level as determined and published by the Bourse, details of the block trade must be reported to the Bourse by contacting a market official of the Bourse's Market Monitoring Department at 1-888-693-6366 or at (514) 871-7871 within the period of time prescribed by the Bourse.

b) Approved participants for both the seller and buyer must complete and submit the Block Trade Reporting Form (Attachment I) or such other notification as prescribed by the Bourse to a market official of the Bourse's Market Monitoring Department for validation.

c) A market official will check the validity of the block trade details submitted by the approved participant(s).

d) Confirmation by a market official of a block trade transaction will not preclude the Bourse from initiating disciplinary procedures in the event that the transaction is subsequently found to have been made other than in compliance with the rules.

e) Once the block trade has been validated, the following information with respect to the block trade will be disseminated by the Bourse:

   i) date and time of transaction;
   ii) security(ies) or derivative instrument(s) and contract month(s);
   iii) price of each contract month(s) and strike price(s) (as applicable); and
   iv) volume of each contract month.

f) Upon request by the Bourse the approved participant who arranges a block trade must provide satisfactory evidence that the block trade has been arranged in accordance with the Rules of the Bourse. Failure to provide satisfactory evidence of compliance with these Rules may result in the initiation of disciplinary action.

In accordance with article 6380 of the Rules of Bourse de Montréal Inc. (the "Bourse"), the following are the eligible securities and derivative instruments, the relevant prescribed time delays and the minimum quantity thresholds for the execution of block trades.

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	**PRESCRIBED TIME DELAY**	**MINIMUM QUANTITY THRESHOLD**
	(As soon as practicable and in any event within the following time delay)	
Thirty-day Overnight "Repo" Rate Futures Contracts (ONX):	15 minutes	1,000 contracts
Ten-year Government of Canada Bond Futures Contracts (CGB):	15 minutes	2,000 contracts
Two-year Government of Canada Bond Futures Contracts (CGZ):	15 minutes	500 contracts
Carbon Dioxide Equivalent (CO_2e) Units Futures Contracts:	15 minutes	500 contracts
Options on Three – month Canadian Bankers Acceptance Futures Contracts (OBX)	15 minutes	2,000 contracts

Montréal Exchange

ATTACHMENT I

Block Trade Reporting Form

Approved participants must complete all sections of this form legibly and accurately.

This form is to be completed and faxed to Market Monitoring at (514) 871-3592.

A market official can be reached at 1-888-693-6366 or at (514) 871-7871.

TIME AND DATE OF TRADE:	
EXECUTING PARTICIPANT NAME AND TRADING ID (BUY):	
CLEARING FIRM NAME AND ID (BUY):	
EXECUTING PARTICIPANT NAME AND TRADING ID (SELL):	
CLEARING FIRM NAME AND ID (SELL):	
CONTACT PHONE NUMBER:	
CONTACT FAX NUMBER OR E-MAIL ADDRESS:	

Derivative Instruments	Future Contract/ Call/ Put	Contract Month	Option Strike Price (if applicable)	Number of Contracts	Price	Strategy Type* (if applicable)

For Montréal Exchange Staff Only:

Time and Date of receipt:

____

Montréal Exchange authorized signature:

____

The details on this form are accepted by the Montréal Exchange strictly on the understanding that the Montréal Exchange accepts no responsibility nor liability for the accuracy or completeness of the details as provided by the approved participant.
* Each leg of a strategy trade should be listed separately.

Montréal Exchange

PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS

In accordance with article 6380 of the Rules of Bourse de Montréal Inc. (the Bourse), the following are the eligible products, the prescribed exposure time delays which must occur at or between the current best bid and the current best offer available in the electronic system of the Bourse and the minimum quantity thresholds.

ELIGIBLE PRODUCTS	PRESCRIBED TIME DELAY	MINIMUM QUANTITY THRESHOLD
Three-month Canadian Bankers' Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	1 contract
Remaining expiry months and strategies	15 seconds	1 contract
Thirty-day Overnight "Repo" Rate Futures Contracts (ONX):		
Front month	5 seconds	1 contract
Remaining expiry months and strategies	15 seconds	1 contract
Government of Canada Bond Futures Contracts:		
All expiry months and strategies	5 seconds	1 contract
S&P Canada 60 Index Futures Contracts (SXF):		
All expiry months	0 second	100 contracts
All expiry months and strategies	5 seconds	1 contract
Carbon Dioxide Equivalent (CO_2e) Units Futures Contracts:		
All expiry months and strategies	5 seconds	1 contract
Options on Three-month Canadian Bankers' Acceptance Futures Contracts (OBX):		
All expiry months and strategies	0 second	250 contracts
All expiry months and strategies	5 seconds	1 contract

ELIGIBLE PRODUCTS	PRESCRIBED TIME DELAY	MINIMUM QUANTITY THRESHOLD
Equity and Currency Options (1):		
All expiry months and strategies	30 seconds	100 contracts
Index Options (1) :		
All expiry months and strategies	15 seconds	50 contracts

Chronological priority of orders must be respected with regards to the posting of the originating order first, when executing a cross or prearranged transaction.

(1) Equity Options, Index Options and Currency Options Contracts

Equity options, index options and currency options are products for which market makers are assigned. In order to encourage the market making activities, cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

Procedure for transactions with a 50% guaranteed minimum (residual quantity equal or greater than the minimum quantity threshold):

The 50% execution guarantee applies only if the residual quantity (described below) is equal to or greater than the minimum quantity threshold.

The approved participant must contact a market official at 1-888-693-6366 or at (514) 871-7871 and provide details of the intended transaction: total quantity which must be equal to or greater than the minimum quantity threshold, price, side(s) of the transaction on which the approved participant is required to give priority.

The approved participant must ensure that all existing disclosed orders on SAM, regardless of type of orders, which are at limit prices better than or equal to the intended transaction price are executed before completing such transaction. The market official will ensure, in collaboration with the approved participant, that this requirement is met;

The **residual quantity** is the portion of the original quantity remaining after orders entered in the book with limit prices better than or equal to the intended transaction price have been filled. If no orders have been executed, the residual quantity is equal to the original intended transaction quantity.

If the residual quantity is less than the minimum quantity threshold, the approved participant must follow the procedure applicable to transactions with no minimum guaranteed volume, described further below.

If the residual quantity of the intended transaction is equal to or greater than the minimum quantity threshold, a market official will contact the market makers and inform them of the residual quantity covered by the transaction and the limit price. The market official will expose to the market makers active on the class the side of the transaction on which the approved participant is required to give priority.

Market makers will be permitted to participate to the transaction up to a total maximum of 50% of the quantity of the original intended transaction[1]

The approved participant will be permitted to execute the transaction for the remaining quantity (a minimum of 50% of the residual quantity, plus any quantity not taken of the 50% of the original intended transaction quantity that had been shown to the market makers and to the market).

Procedure for transactions with no guaranteed minimum volume (residual quantity smaller than the minimum quantity threshold):

Approved participants wishing to make a cross transaction or a prearranged transaction must issue a Request For Quote (RFQ) for the total intended transaction quantity and must then respect a delay that is not less than the prescribed time delay applicable to the specific product before entering the orders into the trading system.

MISCELLANEOUS

Eligible products, their respective minimum quantity thresholds and time delays will be modified from time to time in order to take into account the evolution of the trading environment and operational practices of the Bourse. A circular will be issued by the Bourse every time a modification or revision is made to either one of these criteria.

Bundling of orders to meet the minimum quantity threshold is not permitted.

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[1] *In the case where the total quantity requested by the market makers is equal to or less than the 50% of the quantity of the original intended transaction shown to them, each order will be executed entirely. If the total market makers' interest exceeds the quantity shown to them, each will receive the lesser of the following quantities: (a) an equal portion for each of them or (b) the quantity they requested. A market maker cannot increase the quantity allocated to him by proposing a price better than the intended transaction price. The quantity allocated to a market maker will <u>not be based</u> on previous executions relating to existing orders in the book at prices equal to or better than the intended transaction price.*