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# Understanding UDS Facility Basic Guidelines

## What is UDS?

The user-defined strategies (UDS) facility allows participants to create customized option strategies based on their individual risk management needs.

## How do I create strategies on UDS?

To create strategies via UDS, participants send messages containing the UDS parameters to the Montréal Exchange's (MX) trading engine using the SAIL protocol. The strategy will then be disseminated to all participants in real time, via MX's High Speed Vendor Feed (HSVF).

## Will my strategy be created as I defined it in my creation request?

Not always. Your requested strategy will first be compared to existing UDS and exchange-defined strategies (EDS). The system compares strategies built from the same option series, reducing the ratios and reversing the leg order, if required, to match your strategy to an existing one. Before the ratios are reduced, each leg is sorted by:

1. The buying leg first;
2. The nearest expiration date;
3. The lowest strike price first for spreads (except for put spreads where the higher strike comes first);
4. Calls before puts;
5. The lowest leg ratio.

## What types of strategies are supported by UDS?

### Two-legged Strategies

CALL PRICE SPREAD
PUT PRICE SPREAD
STRADDLE
STRANGLE
SYNTHETIC
CALL CALENDAR SPREAD
PUT PRICE SPREAD 2-1
PUT CALENDAR SPREAD
PUT PRICE SPREAD 3-1
PUT PRICE SPREAD 4-1
PUT DIAGONAL SPREAD
CALL DIAGONAL SPREAD
CALL PRICE SPREAD 2-1
CALL PRICE SPREAD 3-1
CALL PRICE SPREAD 4-1
REV PUT DIAGONAL SPREAD
PUT CALL COMBO
REV CALL DIAGONAL SPREAD
REV STRANGLE
CALL PRICE CALENDAR SPREAD 1-2
SYNTHETIC LONG CALENDAR
2L BUY BUY - CALLS
2L BUY BUY - DIFFERENT STRIKES - PUTS
2L BUY BUY - DIFFERENT STRIKES - CALLS
2L BUY BUY - DIFFERENT EX -STR - CALLS- 1
2L BUY BUY - DIFFERENT EX -STR - CALLS- 2
2L BUY BUY - DIFFERENT EX -STR - PUTS- 1
2L BUY BUY - DIFFERENT EX -STR - PUTS- 2
2L SELL SELL - PUTS
2L SELL SELL - CALLS
SYNTHETIC LONG
SYNTHETIC LONG CALENDAR SAME STRIKES
BUY BUY CALENDER DIFF STRIKES
MIX PRICE SPREAD 2-1
REVERSE SYNTHETIC CALENDAR DIFF STRIKES
CALL DIAGONAL SPREAD 1-2
CALL Calendar SPREAD 1-2
BUY BUY CALENDER SAME STRIKES
PUT+PUT 3 X 1
STRANGLE DIAGONAL
PUT STRANGLE 2:1
SYNTHETIC DIAGONAL CALENDAR
PUT+PUT 1x3
PUT+PUT 4X1
PUT+PUT 1X4

### Three-legged Strategies

CALL BUTTERFLY 3L
PUT BUTTERFLY 3L
CALL LADDER 3L
PUT LADDER 3L
BUY 2C BUY 1P SELL 2C
BUY 2P SELL 1C SELL 1P
CALL SPD WITH HI X PUT
PUT SPD WITH LO X CALL
BUY CALL SPREAD SELL PUT
BUY 1 PUT SELL 2 CALLS BUY 1 PUT
PUT VS STRANGLE 3L
CALL VS STRANGLE 3L

### Four-legged Strategies

CALL CONDOR 4L
PUT CONDOR 4L
IRON CONDOR 4L
IRON BUTTERFLY 4L
DOUBLE DIAGONAL 4L
DOUBLE CALENDAR 4L
CALL SPD WITH PUT SPD OPPOSITE STRIKES
SYNTHETIC LONG SYN SHORT CALENDAR 4L
SYNTHETIC LONG CALENDAR ROLL

If no matching UDS or EDS is found, the strategy will then be compared to strategy profiles that MX recognizes as valid. Here again, the leg ratios and/or the leg order may be adjusted to match the strategy profile.

As such, the strategy that is created may not be defined as in your request, i.e. the leg ratios may be smaller and the leg order reversed. In such an event, the system will include a flag stating that a modification has occurred when acknowledging your strategy creation request.

Once your strategy has been created, managing the order on the strategy includes adjusting the order's quantity, verifying the action (buy/sell) and entering the price accordingly.

## Is there a limit to the number of strategies I can create?

Yes, the daily UDS creation limit is 1,000 strategies per approved participant (domestic or foreign).

## Are implied orders generated in UDS?

Yes, the implied pricing (IP) algorithm is active for all UDS.

An implied order is an order generated synthetically from two or more regular orders that are already registered in the order book. These orders could come from individual legs or an individual leg and a strategy involving that leg. Regular orders (non-implied) always have price/time priority over implied orders.

## How should I interpret the disseminated implied quotes in HSVF?

The implied market of the strategy is generated virtually to represent what the market, as a whole, is willing to bid or offer on the requested strategy. This achieves, in a single transaction, what would otherwise have to be legged, reducing the risk of the market moving between the entry of the orders comprising the legs of the strategy.

Quotes implied on a strategy represent the structure of the strategy along with the available leg prices. The trading system will always seek to display the highest possible tradable quantity for any instrument. That quantity is limited by what is available on the legs (if the instrument is a strategy). As more than one strategy can imply orders on the same leg, the system will not limit the implied quantity on an instrument according to how many strategies use the instrument; which can explain discrepancies between implied quantities and tradable quantities as disseminated through HSVF.

For more information on implied pricing for options, please **click here**.

## How should I interpret UDS' net debit and credit?

Each trade is executed for two parties, the buyer and the seller. In a transaction, one account will receive a "debit" entry (cash outflow) and the other account will receive a "credit" entry (cash inflow).

For example, if a participant buys a September 64.00 call option at $1.76 (+$1.76 *outflow*) and sells a May 62.00 call at $0.32(-$0.32 *inflow*), the UDS will display a $1.44 debit for the calendar spread strategy.

# For more information:


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