

POLICY T-1

SPECIALIST/MARKET-MAKER TRADING POLICY (23.01.92, 22.11.99)

General

The functioning of the Montreal Exchange markets rests on the participation of experienced traders with assigned responsibilities. In order to stimulate that participation, the Exchange has implemented a system of specialists and market-makers supported by an electronic order entry system and an electronic order book.

Articles 6571 through 6600 of Rule Six regulate the framework within which these professionals must operate. These rules are intended to structure professional participation while recognizing that certain privileges must be granted to those who assume greater responsibilities. The fast and efficient service of orders is the primary objective of this Policy.

The present Policy elaborates on the provisions of articles 6571 to 6600.

1. Administration (22.11.99)

The Floor Committee - Options receives the applications for assignments, proceed with the allocations and periodic evaluations of specialists and market-makers.

- 1.1 The day-to-day operations of the trading floor, including the approval of specialist and market-maker designations, is the responsibility of the Floor Committee - Options (articles 6611 to 6620 - Derivative products).

2. Applications for Assignments (22.11.99)

- 2.1 The qualifications and requirements applicable to individual members, floor attorneys and restricted permit holders seeking a designation of specialist or market-maker are described in sections 6081-6100 and 6101-6120.

Supplementary Material

Specialist:

The Floor Committee - Options approves the designation of specialist. Assignments are given to member firms, not to individuals.

Market-maker:

The above procedure applies except that assignments are given to the individuals.

2.2 Applications for assignments shall be made in writing in the form prescribed by the Exchange, and shall indicate the name of the product, the intended spread maintenance and the minimum guaranteed quantity at the quoted prices.

3. Allocations (22.11.99)

The following could lead to the allocation or reallocation of a product:

- a new listing
- a member's request
- a split-up or merger of specialists units
- a transfer between two specialists units with the prior approval of the Exchange
- a disciplinary action
- a decision of the Floor Committee - Options

4. Capital Requirements (22.11.99)

4.1 The minimum commitment of capital which is required for an assignment of specialist is \$50,000 [article 7007 2)]; the minimum commitment of capital for an assignment as market-maker is the lesser of \$10,000 per assignment or \$25,000 [article 7007 1)].

4.2 The amount of money required to cover the positions held in a specialist's or market-maker's account is established in Rule Eleven for options and in Rule Fourteen for futures.

5. Trading Operations of Specialists (22.11.99)

5.1 Opening

The specialist is responsible for the opening of each product to which he is assigned. He shall be at his post not less than 30 minutes before the opening signal of a trading session.

A specialist may exclude an order from participation at the opening price if such order was entered less than one minute before the opening signal.

A specialist may exclude professional orders from participating at the opening price if such orders would only contribute in creating an imbalance.

5.2 Claims

Any claims against a specialist shall be presented in writing to the specialist and a Floor Official as soon as possible, but no later than the opening of trading on the next business day following the day of the transaction giving rise to the claim. All disputed claims will be referred to arbitration according to articles 5201 to 5208 of the Rules of the Exchange.

6. Specialist's Responsibility Toward the Electronic Book

(10.06.98, 22.11.99)

It is anticipated that most orders will be filed in the Book. However, very large orders, not-held orders and others requiring special attention will be managed by a trader in the crowd. Equally, market-makers will be present in the crowd to represent their own interest. When there is active trading in the crowd, the specialist is responsible for ensuring that the priority of orders in the Book is respected.

6.1 Assistance to large orders

The specialists are expected to assist Members with the execution of large orders by providing information regarding recent activity and interests in their assigned securities. They also assist traders in finding offsetting orders.

6.2 Minimum size of bids and offers

The bids and offers of a specialist, of a market maker and of a floor-based professional shall not be less than the minimum posted size (MPS) on the product, as defined by the Floor Committee - Options.

6.3 Immediate execution

The specified quantity under which a tradeable order is entitled to an immediate execution is 10 contracts.

6.4 Minimum guaranteed fill and spread

The specialists and the Designated Primary Market-Makers will ensure that in every option for which they have taken an assignment:

- a) the minimum guaranteed fill (MGF) quantity can be traded at any bid or offer posted for qualified orders;
- b) the spread between the bid and offer respects his commitments.

7. Market-Makers

(22.11.99)

7.1 Number

The number of market-makers to be assigned to any particular product shall be determined by the Floor Committee - Options.

7.2 Market-maker responsibilities

On their assigned products, market-makers shall be expected to provide assistance to specialists in the execution of clients orders.

Market-maker shall be obligated to maintain 50% of their quarterly activities in their assigned products and, at no time shall they maintain more than 25% of their activities in any one non-assigned product.

8. Stabilization Requirements

(22.11.99)

The transactions of specialists and market-makers in any security on which they have assumed responsibilities shall be predominantly of a market stabilizing nature, they are prohibited from making destabilizing trades while establishing or increasing a position.

Definitions

Stabilizing trades are purchases made at a price below (or sales made at a price above) the last preceding different-priced trade.

Destabilizing trades are purchases made at a price above (or sales made at a price below) the last preceding different-priced trade.

Neutral trades are trades which except for the fact that they are made to unwind an actual position, would be considered as destabilizing.

Performance in this area will be measured periodically and when more than 30% of a specialist or market-maker trades (based on any of the number of transactions, share volume or dollar value of trading) are destabilizing trades, his performance will be considered unsatisfactory.