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**CIRCULAR 011-16**  
January 21, 2016

## **SELF-CERTIFICATION**

### **AN UPDATE OF THE RULES AND PROCEDURES OF BOURSE DE MONTRÉAL INC.**

#### **AMENDMENTS TO RULES 6 AND 15 OF THE BOURSE**

#### **AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS**

#### **AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to articles 6101, 6213, 6369, 6375, 6653, 6655, 6661, 6662, 6672, 6680, 6816, 6819 of Rule Six, to articles 15002, 15819 of Rule Fifteen, to the Procedures applicable to the execution of strategies involving options and to the Procedures applicable to the execution of strategies involving futures and options on futures, in order to update their content.

The attached amendments were self-certified in accordance with the self-certification process as defined in the *Derivatives Act* (CQLR, Chapter I-14.01). They will come into effect and be incorporated into the version of the Rules and Procedures of the Bourse on the Bourse’s website ([www.m-x.ca](http://www.m-x.ca)) on **January 22, 2016**.

The rule changes described in the present circular were published for public comments by the Bourse on November 11, 2015 (see Circular [134-15](#)). Pursuant to the publication of this circular, the Bourse received one comment. You will find attached the comment received and the response from the Bourse.

For additional information, please contact Jean-Philippe Joyal, Legal Counsel, at 514-787-6593 or at [jpjoyal@m-x.ca](mailto:jpjoyal@m-x.ca).

Jean-Philippe Joyal  
Legal Counsel  
Legal Affairs, Derivatives

**6101 Qualifications**  
(10.10.91, [00.00.00](#))

Trading personnel [of an Approved Participant](#) must:

- a) be at least eighteen (18) years of age;
- b) be considered in all respects to be a suitable person for the privilege and responsibility of trading [Exchange-Listed Products](#);
- c) have completed the [Exchange's training requirements Trading Workshop prescribed by the Bourse](#) and ~~have successfully passed an exam on trading rules and order handling regulations.~~

**6213 Dissemination Taping of Trades/Transactions**  
(03.07.87, 10.10.91, [00.00.00](#))

All trades shall be ~~disseminated/published through~~ [the market data feed tape](#) ~~forthwith~~ after their execution.

**6369 Regular Orders**  
(25.09.00, 24.09.01, 29.10.01, 24.04.09, 26.06.15, [00.00.00](#))

The orders routed by Approved Participants (regular orders) which can be executed are defined hereinafter:

- a) Market order (best limit; bid/ask)
  - A Market order is executed at the best limit that is available on the other side of the market at the moment the order is introduced into the electronic trading system, at the quantity available at this limit. If the order is partially filled, the unfilled quantity is posted at the price which the first part of the order was executed.
  - A Market order can only be entered during the Market Session (Continuous Trading).
  - A Market order is only accepted by the system if a price limit exists on the other side.
- b) Limit order:

An order to buy or sell at a specified price, or better.
- c) Stop limit order:

An order to buy or sell which becomes a limit order once the contract has traded at the stop-price or higher in the case of a buy order; at the stop-price or lower in the case of a sell order.

If more than one stop order has the same trigger price, then the first in, first out basis (FIFO) rule will apply. Once the stop order becomes a limit order, a new time priority is given to it.

  - Stop limit orders can only be entered as day orders.
- d) Opening / Closing price order (Market on Open and Market on Close):

Order by which a trader is the buyer or the seller of contracts at the opening / closing price defined by the electronic trading system at the pre-opening / pre-closing session. Therefore, this order must be input during the pre-opening / pre-closing session. If an order is not filled in full, the order is assigned the opening price Calculated Theoretical-Opening (CTO) as defined in article 6375 of the Rules, as its new limit.

e) Hidden quantity order:

A trader may hide a certain quantity of the order to the market :

- Disclosed quantity: quantity of contracts initially parameterized by the user to be seen by the market.
- Hidden quantity: difference between the whole order quantity (total quantity) and the disclosed quantity. The hidden quantity is only seen by the Bourse.
- Displayed quantity: Quantity of contracts effectively seen by the market.
- When the order is executed for the disclosed quantity, it is renewed for the same disclosed quantity and the order is positioned at the end of the queue at the same limit. It loops until the whole order quantity (total quantity) has been filled.

f) Fill and kill order

An order which is executed at the given price for the quantity which can be executed. Any portion of the order, which cannot be executed, will be cancelled.

g) A committed order must conform to the following criteria:

- Both the initial order and the opposing order must be entered at the same price.
- Both the initial order and the opposing order must be entered for the same quantity.
- The identification code provided on the initial order must match the identification code of the approved participant that agreed to enter the opposing order; and the identification code provided on the opposing order must match the identification code of the approved participant that entered the initial order.
- The initial order and the opposing order will only be matched at a better price, that is, between the best bid price and the best offer price.
- An opposing order meeting all criteria specified above must be entered before the close of the trading session during which the initial order was submitted or the initial order will be cancelled automatically.

h) All or none bids or offers and minimum amount orders are not allowed.

The Bourse may decide that certain types of orders are not available.

### 6375 Allocation of tradeable orders

(25.09.00, 24.09.01, 29.10.01, [00.00.00](#))

#### a) Pre-opening / Pre-closing

During the pre-opening and pre-closing stages of the trading day, orders are entered but no trades are generated until the end of the stage. The electronic trading system will calculate the opening/ closing price.

The Calculated Theoretical-Opening price (CTO) represents the overlapping bid/ask price range that results in the maximum possible trade volume.

When there is more than one possible CTO at which the maximum volume is reached, the price with the lowest residual is used. Furthermore under the following conditions:

- if there is an imbalance on the buy side, the highest price is taken;
- if there is an imbalance on the sell side, the lowest price is taken;
- where the residuals are the same, the price which is closest to the previous settlement is taken.

~~Stop orders during Pre opening / Pre closing stages are treated as follows:~~

~~Stop limit orders [do not enter into](#) [can only participate in](#) the CTO calculation [once their trigger price has been reached](#). Each time a new CTO is determined, a stop order could get triggered and untriggered.~~

#### b) Market Session (Continuous Trading)

The electronic trading system allocates the tradeable orders [first on a price basis, and then](#) on a first in, first out basis (FIFO) except when part of the allocation is subject to an execution guarantee as defined by the Bourse.

### 6653 Variation to Position and Exercise Limits

(10.11.92, [00.00.00](#))

In the case of a stock split in the underlying interest:

- a) the [BourseExchange](#) may establish special position and exercise limits which may reflect the basis of the stock split, providing that
- b) the normal limits shall apply to the aggregate positions of all new option series of that class of options listed after the date of the split.

Prompt notice shall be given [through the issuance of a circular](#) for each new limit fixed by the [BourseExchange](#), ~~by posting notice thereof on the bulletin board of the option trading floor and by notice to members.~~

#### **6655 Report of Uncovered Short Positions**

(28.09.82, 10.11.92, 00.00.00)

Upon request by the Bourse, an Approved Participant shall provide the Bourse with ~~—Each—member shall submit to the Exchange Chief Examiner~~ a report of the total uncovered short position in each option contract open for trading showing:

- a) the position carried by such Approved Participant ~~member or restricted permit holder~~ for its own account;
- b) the positions carried by such Approved Participant ~~member~~ for the account of clients;

provided that Approved Participants ~~members~~ shall not report positions carried for the accounts of other Approved Participants ~~members~~ where such ~~members~~ Approved Participants report the positions themselves. ~~Such report shall be made as of the 15th of each month (or more frequently if required by the Exchange) and shall be submitted not later than the second business day following the date as of which the report is made.~~

#### **6661 Recording of Telephone Conversations**

(02.07.96, 07.09.99, 11.02.00, 00.00.00)

To ensure the integrity of the markets and resolve disputes regarding trades in Listed Products ~~stœk options, bond options, index options and options on index participation units~~, the Bourse ~~Exchange~~ will record all telephone conversations of the Bourse's Market Operations Department regarding the trading of Listed Products ~~between persons authorized to communicate directly with the trading booths on the floor and the persons trading these products.~~

#### **6662 Procedures for Consulting Recordings**

(02.07.96, 07.09.99, 00.00.00)

- a) Authorization to consult the recordings of telephone conversations shall be granted in the case of an investigation by the Bourse, Exchange or, the Autorité des marchés financiers ~~Quebec Securities Commission or by any other upon request by any competent government authority~~, regulatory body or self-regulatory organization or as prescribed by applicable law or regulation, by the valid order of a court, tribunal or by legal process ~~with which the Bourse Exchange has concluded an information sharing agreement.~~
- b) Only persons authorized by the President and authorized representatives of the Approved Participants ~~member firms~~ may listen to a recording.
- c) Before consulting a recording and only to the extent legally permissible, the Exchange ~~Bourse~~ shall notify the person concerned or its authorized representative, who may wish to be present during consultation, except in the case of an investigation ~~or when a situation warrants~~.
- d) In the case of litigation or in disciplinary matters, the recordings may be filed as evidence.
- e) Except for persons authorized by the President, all concerned persons or their authorized representative who wish to consult their recording must make a written request to the Director, Market Futures

Operations, of the ~~Exchange-Bourse~~ explaining the reasons for the request. Upon approval, the authorized person may consult the recording in the presence of one of the authorized persons of the ~~Exchange-Bourse~~ as per paragraph b).

- f) ~~Approved Participants~~**Members** must advise their clients of the recording process of telephone conversations and abide to the provisions of article 7452 of Rule Seven.

#### **6672 Allocation of Exercise Notices**

(10.11.92, ~~00.00.00~~)

Each ~~Approved Participant member~~ shall establish a fixed written procedure for the allocation of exercise notices assigned in respect of a short position in such member's clients' accounts. The procedure to be adopted may be on a "first in, first out" basis, on a random selection basis or another allocation method that is fair and equitable to the ~~Approved Participant~~**member's** clients. ~~In each case, the method shall be approved by the Exchange and shall not be thereafter changed without Exchange approval.~~

#### **6680 Extraordinary Circumstances**

(10.11.92, ~~00.00.00~~)

In the interest of keeping fair and orderly trading on the ~~Bourse~~**Exchange** and for the protection of both option holders and writers, the ~~Bourse~~**Exchange** may make special trading and settlement rules when an underlying Interest is involved in:

- a) a take-over bid under a circular, ~~or under Rule Twelve~~;
- b) a stock dividend, a share split or a consolidation;
- c) any other unforeseen events.

#### **6816 ~~Off-Exchange Ex-Pit~~ Transfers of Existing Futures Contracts**

(08.09.89, 07.09.99, ~~00.00.00~~)

- a) ~~Off-Exchange Tr~~ transfers of open futures contracts may be accomplished ~~other than on the Exchange Floor~~ only if there is no change in the beneficial ownership of the futures contracts, the members involved in the transfer are able to produce to the ~~Bourse~~**Exchange** upon request, all orders, records and memoranda pertaining thereto and the transfer either
- i) is made at the request of the beneficial owner of the futures contracts from one member to another;  
or
  - ii) is made at the request of a member to another member; or
  - iii) is made to correct an error in clearing; or
  - iv) is made to correct an error in the recording of transactions in the members' books.
- b) Both members which are parties to an ~~off-exchange ex-pit~~ transfer pursuant to this article shall complete and submit to the designated Clearing Corporation such information evidencing the terms of the ~~off-~~

~~exchange ex-pit~~ transfer as may be prescribed by the Clearing Corporation on the day on which such ~~off-exchange ex-pit~~ transfer is effected.

**6819 Extraordinary Circumstances for shares futures contracts**  
(31.01.01, 00.00.00)

In order to keep fair and orderly trading on the BourseExchange and for the protection of both share futures buyers and sellers, the BourseExchange may make special trading and settlement rules when an underlying Interest is involved in:

- a) a take-over bid under a circular, ~~or under Rule Twelve~~;
- b) a stock dividend, a share split or a consolidation;
- c) any other unforeseen events.

Generally, no adjustments will be made for declared dividends, if any, on the underlying stocks.

**6101 Qualifications**  
(10.10.91, 22.01.16)

Trading personnel of an Approved Participant must:

- a) be at least eighteen (18) years of age;
- b) be considered in all respects to be a suitable person for the privilege and responsibility of trading Listed Products;
- c) have completed the training requirements prescribed by the Bourse.

**6213 Dissemination of Trades**  
(03.07.87, 10.10.91, 22.01.16)

All trades shall be disseminated through the market data feed after execution.

**6369 Regular Orders**  
(25.09.00, 24.09.01, 29.10.01, 24.04.09, 26.06.15, 22.01.16)

The orders routed by Approved Participants (regular orders) which can be executed are defined hereinafter:

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  - A Market order can only be entered during the Market Session (Continuous Trading).
  - A Market order is only accepted by the system if a price limit exists on the other side.
- b) Limit order:

An order to buy or sell at a specified price, or better.
- c) Stop limit order:

An order to buy or sell which becomes a limit order once the contract has traded at the stop-price or higher in the case of a buy order; at the stop-price or lower in the case of a sell order.

If more than one stop order has the same trigger price, then the first in, first out basis (FIFO) rule will apply. Once the stop order becomes a limit order, a new time priority is given to it.

  - Stop limit orders can only be entered as day orders.
- d) Opening / Closing price order (Market on Open and Market on Close):

Order by which a trader is the buyer or the seller of contracts at the opening / closing price defined by the electronic trading system at the pre-opening / pre-closing session. Therefore, this order must be input during the pre-opening / pre-closing session. If an order is not filled in full, the order is assigned the opening price Calculated Theoretical-Opening (CTO) as defined in article 6375 of the Rules, as its new limit.

e) Hidden quantity order:

A trader may hide a certain quantity of the order to the market :

- Disclosed quantity: quantity of contracts initially parameterized by the user to be seen by the market.
- Hidden quantity: difference between the whole order quantity (total quantity) and the disclosed quantity. The hidden quantity is only seen by the Bourse.
- Displayed quantity: Quantity of contracts effectively seen by the market.
- When the order is executed for the disclosed quantity, it is renewed for the same disclosed quantity and the order is positioned at the end of the queue at the same limit. It loops until the whole order quantity (total quantity) has been filled.

f) Fill and kill order

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g) A committed order must conform to the following criteria:

- Both the initial order and the opposing order must be entered at the same price.
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The Bourse may decide that certain types of orders are not available.

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The Calculated Theoretical-Opening price (CTO) represents the overlapping bid/ask price range that results in the maximum possible trade volume.

When there is more than one possible CTO at which the maximum volume is reached, the price with the lowest residual is used. Furthermore under the following conditions:

- if there is an imbalance on the buy side, the highest price is taken;
- if there is an imbalance on the sell side, the lowest price is taken;
- where the residuals are the same, the price which is closest to the previous settlement is taken.

Stop limit orders do not enter into the CTO calculation.

b) Market Session (Continuous Trading)

The electronic trading system allocates the tradeable orders first on a price basis, and then on a first in, first out basis (FIFO) except when part of the allocation is subject to an execution guarantee as defined by the Bourse.

**6653 Variation to Position and Exercise Limits**  
(10.11.92, 22.01.16)

In the case of a stock split in the underlying interest:

- a) the Bourse may establish special position and exercise limits which may reflect the basis of the stock split, providing that
- b) the normal limits shall apply to the aggregate positions of all new option series of that class of options listed after the date of the split.

Prompt notice shall be given through the issuance of a circular for each new limit fixed by the Bourse.

**6655 Report of Uncovered Short Positions**  
(28.09.82, 10.11.92, 22.01.16)

Upon request by the Bourse, an Approved Participant shall provide the Bourse with a report of the total uncovered short position in each option contract open for trading showing:

- a) the position carried by such Approved Participant for its own account;

- b) the positions carried by such Approved Participant for the account of clients;

provided that Approved Participants shall not report positions carried for the accounts of other Approved Participants where such Approved Participants report the positions themselves.

**6661 Recording of Telephone Conversations**  
(02.07.96, 07.09.99, 11.02.00, 22.01.16)

To ensure the integrity of the markets and resolve disputes regarding trades in Listed Products, the Bourse will record all telephone conversations of the Bourse's Market Operations Department regarding the trading of Listed Products.

**6662 Procedures for Consulting Recordings**  
(02.07.96, 07.09.99, 22.01.16)

- a) Authorization to consult the recordings of telephone conversations shall be granted in the case of an investigation by the Bourse, upon request by any competent government authority, regulatory body or self-regulatory organization or as prescribed by applicable law or regulation, by the valid order of a court, tribunal or by legal process.
- b) Only persons authorized by the President and authorized representatives of the Approved Participants may listen to a recording.
- c) Before consulting a recording and only to the extent legally permissible, the Bourse shall notify the person concerned or its authorized representative, who may wish to be present during consultation, except in the case of an investigation.
- d) In the case of litigation or in disciplinary matters, the recordings may be filed as evidence.
- e) Except for persons authorized by the President, all concerned persons or their authorized representative who wish to consult their recording must make a written request to the Director, Market Operations, of the Bourse explaining the reasons for the request. Upon approval, the authorized person may consult the recording in the presence of one of the authorized persons of the Bourse as per paragraph b).
- f) Approved Participants must advise their clients of the recording process of telephone conversations and abide to the provisions of article 7452 of Rule Seven.

**6672 Allocation of Exercise Notices**  
(10.11.92, 22.01.16)

Each Approved Participant shall establish a fixed written procedure for the allocation of exercise notices assigned in respect of a short position in such member's clients' accounts. The procedure to be adopted may be on a "first in, first out" basis, on a random selection basis or another allocation method that is fair and equitable to the Approved Participant's clients.

**6680 Extraordinary Circumstances**  
(10.11.92, 22.01.16)

In the interest of keeping fair and orderly trading on the Bourse and for the protection of both option holders and writers, the Bourse may make special trading and settlement rules when an underlying Interest is involved in:

- a) a take-over bid under a circular;
- b) a stock dividend, a share split or a consolidation;
- c) any other unforeseen events.

**6816 Off-Exchange Transfers of Existing Futures Contracts**  
(08.09.89, 07.09.99, 22.01.16)

- a) Off-Exchange transfers of open futures contracts may be accomplished only if there is no change in the beneficial ownership of the futures contracts, the members involved in the transfer are able to produce to the Bourse upon request, all orders, records and memoranda pertaining thereto and the transfer either
  - i) is made at the request of the beneficial owner of the futures contracts from one member to another; or
  - ii) is made at the request of a member to another member; or
  - iii) is made to correct an error in clearing; or
  - iv) is made to correct an error in the recording of transactions in the members' books.
- b) Both members which are parties to an off-exchange transfer pursuant to this article shall complete and submit to the designated Clearing Corporation such information evidencing the terms of the off-exchange transfer as may be prescribed by the Clearing Corporation on the day on which such off-exchange transfer is effected.

**6819 Extraordinary Circumstances for shares futures contracts**  
(31.01.01, 22.01.16)

In order to keep fair and orderly trading on the Bourse and for the protection of both share futures buyers and sellers, the Bourse may make special trading and settlement rules when an underlying Interest is involved in:

- a) a take-over bid under a circular;
- b) a stock dividend, a share split or a consolidation;
- c) any other unforeseen events.

Generally, no adjustments will be made for declared dividends, if any, on the underlying stocks.

## 15002 Definitions

(24.01.86, 22.04.88, 08.09.89, 19.01.95, 07.09.99, 00.00.00)

In this Rule, unless the subject matter or context otherwise require:

"Exchange"

means The Montreal Exchange.

"Clearing Corporation"

means the Canadian Derivatives Clearing Corporation (CDCC).

~~"Governing Committee"~~

~~—means the Governing Committee of the Exchange.~~

~~"Pit Committee"~~

~~—means a committee constituted by virtue of article 6821 of Rule Six.~~

"Business Day"

means a day when the Exchange is open for trading.

"Member"

means a Mercantile member or an Exchange member.

## 15819 Emergencies, Acts of God, Actions of Governments

(31.01.01, 00.00.00)

- a) In the eventuality that a delivery operation cannot be carried because of a strike, a fire, an accident, a Government action, an act of God or any other emergency situation, the holder of a buyer's position or a seller's position shall immediately notify the Exchange and the Clearing Corporation. In the eventuality that the Exchange or the Clearing Corporation finds that an immediate action is necessary, a special meeting of the Board of Directors ~~Governing Committee~~ shall be called on the matter and any decision rendered in such circumstances shall be binding on all parties to futures contracts. If the Board of Directors ~~Governing Committee~~ decides that an Emergency situation is in progress, the Board of Directors ~~Governing Committee~~ shall take all necessary actions in the circumstances, and the decision of the ~~Governing Committee~~ Board of Directors shall bind all parties to the futures contract. The ~~Governing Committee~~ Board of Directors could, for instance, extend the delivery period or indicate a different location for delivery operations.
- b) In the eventuality the Board of Directors ~~where the Governing Committee~~ decides that a shortage of deliverable of Canadian shares issues exists or might exist, it shall take all necessary action to correct, prevent or alleviate the situation. The ~~Governing Committee~~ Board of Directors ~~may~~ could, for instance:
- i) designate as a deliverable issue any other issue of the same issuer that does not meet the criteria in this Rule;

- ii) in addition to the normal delivery procedures, decide of a cash settlement based on the cash value of a Canadian share on the last day of trading.

**15002 Definitions**

(24.01.86, 22.04.88, 08.09.89, 19.01.95, 07.09.99, 22.01.16)

In this Rule, unless the subject matter or context otherwise require:

"Exchange"

means The Montreal Exchange.

"Clearing Corporation"

means the Canadian Derivatives Clearing Corporation (CDCC).

"Business Day"

means a day when the Exchange is open for trading.

"Member"

means a Mercantile member or an Exchange member.

**15819 Emergencies, Acts of God, Actions of Governments**

(31.01.01, 22.01.16)

- a) In the event that a delivery operation cannot be carried because of a strike, a fire, an accident, a Government action, an act of God or any other emergency situation, the holder of a buyer's position or a seller's position shall immediately notify the Exchange and the Clearing Corporation. In the event that the Exchange or the Clearing Corporation finds that an immediate action is necessary, a special meeting of the Board of Directors shall be called on the matter and any decision rendered in such circumstances shall be binding on all parties to futures contracts. If the Board of Directors decides that an Emergency situation is in progress, the Board of Directors shall take all necessary actions in the circumstances, and the decision of the Board of Directors shall bind all parties to the futures contract. The Board of Directors could, for instance, extend the delivery period or indicate a different location for delivery operations.
- b) In the event the Board of Directors decides that a shortage of deliverable of Canadian shares issues exists or might exist, it shall take all necessary action to correct, prevent or alleviate the situation. The Board of Directors may, for instance:
  - i) designate as a deliverable issue any other issue of the same issuer that does not meet the criteria in this Rule;
  - ii) in addition to the normal delivery procedures, decide of a cash settlement based on the cash value of a Canadian share on the last day of trading.

## PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS

### 1. OBJECTIVE

The objective of these procedures is to provide and facilitate the trading of strategies involving equity options for approved participants. For the purposes of these procedures, equity options also include options on indices, currencies and exchange-traded funds. Approved participants may create user-defined strategies (“**UDS**”) via individual trading terminals which allow customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal Inc.’s (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 866 576-8836 or 514 871-7877 for assistance in creating a UDS, or in presenting an options strategy to designated market makers and, when applicable, ensuring its manual execution in the Bourse’s trading system.

### 2. DESCRIPTION

#### Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system ~~in through~~ any of the ~~supported~~ protocols supported by the Bourse(SAIL, FIX or STAMP). This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

#### Creation by MOD

If an approved participant does not have the capability to create a UDS, the approved participant may contact the MOD and request the creation of the UDS. The UDS must conform to the acceptance criteria as determined by Bourse from time to time.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument.

In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering orders.

### **Execution by MOD**

If a strategy can not be created and broadcasted using the UDS because the strategy type is not accepted by Bourse, or because the approved participant does not have the capability to create and place orders on a UDS, the approved participant may submit a strategy order using the following procedure:

- A) The approved participant must contact the MOD and indicate its option strategy. The information provided must include the option series involved, the quantity ratio, the price and the total quantity of the order. Approved participants must have received and time-registered their order prior to contacting the MOD. If the intended strategy includes an equity leg, the approved participant must also indicate the reference price of the underlying interest and the number of shares to be executed in the strategy.
- B) The MOD will contact qualifying market makers assigned to the option class. A qualifying market maker is defined as a market maker that is showing a bid/ask market no wider than the no-bust range of that instrument, with a minimum of ten contracts per side. The MOD will respect the following procedure:
  - (i) For strategies involving less than 50 contracts per leg, market makers will be contacted individually as their turn comes up, according to a rotation kept by the MOD;
  - (ii) For strategies involving between 50 and 99 contracts per leg, market makers will be contacted by groups of two, according to their rank on the rotation;
  - (iii) For strategies involving 100 contracts or more per leg, all qualifying market makers will be contacted.

In the event that a strategy is comprised of multiple legs, the MOD will take into account the option with the furthest expiry to determine which participating market makers will be contacted. Qualifying market makers will be contacted and shown the strategy as submitted by the approved participant. If the market maker(s) accepts the prices provided by the MOD, the transaction will be entered and broadcast to all relevant parties (approved participants, market makers, and stock exchange, if necessary).

- C) The market makers may provide responding bids, offers and quantities:
  - (i) If market makers choose to participate on the strategy, they must be willing to trade all parts inherent to the transaction (all series, shares) but they will not be obligated to trade the entire quantity
  - (ii) If a particular market maker is not available within 15 seconds of the market supervisor of the MOD initiating the telephone call, no additional attempts to contact him will be made. The market maker should provide an answer to the MOD within approximately 30 seconds of the strategy description given by the MOD. Allowance will be made for a longer response time in the case of a particularly complex strategy. If all attempts fail the order will be rejected.

- D) In some situations where the strategy can not be executed, the MOD may inform the approved participant of the best corresponding bid/offer as well as the corresponding quantities obtained by market makers. Once the details of the transaction are negotiated and confirmed, information on the transaction will be entered into the Bourse's trading system by the MOD and broadcast to the marketplace. The strategy trade will be broadcast via the Bourse's Web site and the leg prices and volumes will be disseminated via the Bourse's data feed. If the transaction includes an equity leg and the option leg has been executed, the MOD will submit the equity portion of the strategy to the venue where the equity is traded.

#### **Execution of Cross Transaction on Strategies Involving Options**

- 1) Cross Transactions with a 50% guaranteed minimum will not be accepted electronically – Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.
- 2) Cross transactions on equity options strategies **without** a 50% guaranteed minimum will be accepted electronically - Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.

## PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS

### 1. OBJECTIVE

The objective of these procedures is to provide and facilitate the trading of strategies involving equity options for approved participants. For the purposes of these procedures, equity options also include options on indices, currencies and exchange-traded funds. Approved participants may create user-defined strategies (“**UDS**”) via individual trading terminals which allow customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal Inc.’s (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 866 576-8836 or 514 871-7877 for assistance in creating a UDS, or in presenting an options strategy to designated market makers and, when applicable, ensuring its manual execution in the Bourse’s trading system.

### 2. DESCRIPTION

#### Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system through any of the protocols supported by the Bourse. This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

#### Creation by MOD

If an approved participant does not have the capability to create a UDS, the approved participant may contact the MOD and request the creation of the UDS. The UDS must conform to the acceptance criteria as determined by Bourse from time to time.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument.

In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering orders.

### **Execution by MOD**

If a strategy can not be created and broadcasted using the UDS because the strategy type is not accepted by Bourse, or because the approved participant does not have the capability to create and place orders on a UDS, the approved participant may submit a strategy order using the following procedure:

- A) The approved participant must contact the MOD and indicate its option strategy. The information provided must include the option series involved, the quantity ratio, the price and the total quantity of the order. Approved participants must have received and time-registered their order prior to contacting the MOD. If the intended strategy includes an equity leg, the approved participant must also indicate the reference price of the underlying interest and the number of shares to be executed in the strategy.
- B) The MOD will contact qualifying market makers assigned to the option class. A qualifying market maker is defined as a market maker that is showing a bid/ask market no wider than the no-bust range of that instrument, with a minimum of ten contracts per side. The MOD will respect the following procedure:
  - (i) For strategies involving less than 50 contracts per leg, market makers will be contacted individually as their turn comes up, according to a rotation kept by the MOD;
  - (ii) For strategies involving between 50 and 99 contracts per leg, market makers will be contacted by groups of two, according to their rank on the rotation;
  - (iii) For strategies involving 100 contracts or more per leg, all qualifying market makers will be contacted.

In the event that a strategy is comprised of multiple legs, the MOD will take into account the option with the furthest expiry to determine which participating market makers will be contacted. Qualifying market makers will be contacted and shown the strategy as submitted by the approved participant. If the market maker(s) accepts the prices provided by the MOD, the transaction will be entered and broadcast to all relevant parties (approved participants, market makers, and stock exchange, if necessary).

- C) The market makers may provide responding bids, offers and quantities:
  - (i) If market makers choose to participate on the strategy, they must be willing to trade all parts inherent to the transaction (all series, shares) but they will not be obligated to trade the entire quantity
  - (ii) If a particular market maker is not available within 15 seconds of the market supervisor of the MOD initiating the telephone call, no additional attempts to contact him will be made. The market maker should provide an answer to the MOD within approximately 30 seconds of the strategy description given by the MOD. Allowance will be made for a longer response time in the case of a particularly complex strategy. If all attempts fail the order will be rejected.

- D) In some situations where the strategy can not be executed, the MOD may inform the approved participant of the best corresponding bid/offer as well as the corresponding quantities obtained by market makers. Once the details of the transaction are negotiated and confirmed, information on the transaction will be entered into the Bourse's trading system by the MOD and broadcast to the marketplace. The strategy trade will be broadcast via the Bourse's Web site and the leg prices and volumes will be disseminated via the Bourse's data feed. If the transaction includes an equity leg and the option leg has been executed, the MOD will submit the equity portion of the strategy to the venue where the equity is traded.

#### **Execution of Cross Transaction on Strategies Involving Options**

- 1) Cross Transactions with a 50% guaranteed minimum will not be accepted electronically – Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.
- 2) Cross transactions on equity options strategies **without** a 50% guaranteed minimum will be accepted electronically - Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.

## PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES

### 1. OBJECTIVE

The objective of these procedures is to provide for and facilitate the trading of strategies involving futures contracts and options on futures contracts from the same product group, .i.e. contracts with the same underlying (“**Intra-Group Strategies**”) as well as from different product groups, .i.e. contracts with different underlyings (“**Inter-Group Strategies**”). Strategies involving futures contracts and options contracts on such futures contracts are Inter-Group Strategies. Approved participants may create user-defined Intra-Group or Inter-Group Strategies (each, a “**UDS**”) via individual trading terminals which allow for customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal inc. (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 888 693-6366 or 514 871-7871 for assistance in creating a UDS.

### 2. DESCRIPTION

#### Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system ~~in-through~~ any of the ~~supported~~ protocols supported by the Bourse(SAIL, FIX or STAMP). This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast in real time to the market via Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

#### Creation by MOD

If an approved participant does not have the capability to create a UDS, the approved participant may contact the MOD and request the creation of the UDS. The UDS must conform to the acceptance criteria as determined by Bourse from time to time.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse's High Speed Vendor Feed, similar to the broadcast of any instrument.

In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering orders.

## PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES

### 1. OBJECTIVE

The objective of these procedures is to provide for and facilitate the trading of strategies involving futures contracts and options on futures contracts from the same product group, .i.e. contracts with the same underlying (“**Intra-Group Strategies**”) as well as from different product groups, .i.e. contracts with different underlyings (“**Inter-Group Strategies**”). Strategies involving futures contracts and options contracts on such futures contracts are Inter-Group Strategies. Approved participants may create user-defined Intra-Group or Inter-Group Strategies (each, a “**UDS**”) via individual trading terminals which allow for customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal inc. (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 888 693-6366 or 514 871-7871 for assistance in creating a UDS.

### 2. DESCRIPTION

#### Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system through any of the protocols supported by the Bourse. This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast in real time to the market via Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

#### Creation by MOD

If an approved participant does not have the capability to create a UDS, the approved participant may contact the MOD and request the creation of the UDS. The UDS must conform to the acceptance criteria as determined by Bourse from time to time.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse's High Speed Vendor Feed, similar to the broadcast of any instrument.

In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering orders.

**Circular 134-15: Summarised comments and responses**

**Note:** The only comment letter received by the Bourse is in favour of the proposed amendments.

<b>No.</b>	<b>Date comment received</b>	<b>Comment summaries</b>	<b>Summary of response</b>
1.	Dec. 9, 2015	<p>The Commenter welcomes the proposed amendments and believes they will more accurately reflect the Bourse's current practices.</p> <p>However, the Commenter raised an interpretation issue between the proposed article 6672 and the analysis describing the proposed rules. In fact, the analysis implies that the allocation method for exercise notices shall be included in the new account documentation completed by the clients whereas article 6672 only requires a written procedure but no disclosure of the allocation method in the new account documentation.</p>	<p>In light of this comment, the Bourse wishes to clarify the scope of article 6672. Although the analysis seems to imply that the method of allocation of exercise notices shall be in the new account documentation completed by the clients, Approved Participants must always comply with the requirements set forth in the Rules of the Bourse which in this case, only require a fixed written procedure. Such procedure doesn't need to be in the new account documentation completed by the clients.</p>