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<input checked="" type="checkbox"/> Back-office – Futures	<input checked="" type="checkbox"/> Regulation

**CIRCULAR 026-15**  
March 19, 2015

## SELF-CERTIFICATION

### **ADDITION OF THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACTS QUARTERLIES FIVE THROUGH EIGHT AND NINE THROUGH TWELVE TO THE LIST OF SECURITIES AND DERIVATIVE INSTRUMENTS ELIGIBLE FOR BLOCK TRADES**

### **AMENDMENTS TO THE PROCEDURES FOR THE EXECUTION OF BLOCK TRADES**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the amendments to the *Procedures for the execution of Block Trades* (the “*Procedures*”) in order to add Three-Month Canadian Bankers’ Acceptance Futures Contracts quarterlies five through eight (BAX Reds) and nine through twelve (BAX Greens) to the list of securities and derivative instruments eligible for Block Trades. These amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

The amended *Procedures*, as attached, will become effective on **March 27, 2015**. Please note that it will also be available on the Bourse’s website ([www.m-x.ca](http://www.m-x.ca)).

For additional information, please contact Ms. Joanne Elkaim, Director, Fixed Income Derivatives, Financial Markets by telephone at 514 871-7891 or by email at [jelkaim@m-x.ca](mailto:jelkaim@m-x.ca).

Claude Cyr  
Senior Vice-President, Financial Markets

## PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

- a) Once a block trade has been arranged, in accordance with the predetermined minimum volume 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 Operations 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 electronically submit the Block Trade Reporting Form, available on the Bourse's web site at [http://www.m-x.ca/rob\\_formulaire\\_en.php](http://www.m-x.ca/rob_formulaire_en.php), to the Bourse's Market Operations 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 and processed, 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 the Bourse's request, 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 volume thresholds for the execution of block trades.

**Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments for the execution of block trades**

<b>ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS</b>	<b>PRESCRIBED TIME DELAY</b>	<b>MINIMUM VOLUME THRESHOLD</b>
	(As soon as practicable and in any event within the following time delay)	
<b>30-Day Overnight Repo Rate Futures Contracts (ONX)</b>	15 minutes	1,000 contracts
<b>Overnight Index Swap Futures Contracts (OIS)</b>	15 minutes	200 contracts
<b>Ten-Year Government of Canada Bond Futures Contracts (CGB)</b>	15 minutes	1,500 contracts
<b>Two-Year Government of Canada Bond Futures Contracts (CGZ)</b>	15 minutes	500 contracts
<b>30-Year Government of Canada Bond Futures Contracts (LGB)</b>	15 minutes	500 contracts
<b>Five-Year Government of Canada Bond Futures Contracts (CGF)</b>	15 minutes	500 contracts
<b>Options on Three-Month Canadian Bankers Acceptance Futures Contracts</b>	15 minutes	2,000 contracts
<b>Canadian Crude Oil Futures Contracts</b>	15 minutes	100 contracts
<b>Futures contracts on the FTSE Emerging Markets Index</b>	15 minutes	100 contracts
<b><u>Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies five through eight (BAX Reds)</u></b>	<u>15 minutes</u>	<u>1,000 contracts</u>
<b><u>Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies nine through twelve (BAX Greens)</u></b>	<u>15 minutes</u>	<u>500 contracts</u>

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**Table 2: Block trades priced at a basis to the index close (BIC) on FTSE Emerging Markets Index Futures Contracts**

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	EXECUTION OF BLOCK TRADES PRICED AT A BASIS TO THE INDEX CLOSE (BICS)
<p><b>Futures contracts on the FTSE Emerging Markets Index</b></p>	<p>Approved participants for both the seller and buyer must complete and submit a Block Trade Reporting Form as stipulated above, specifying the agreed-upon basis in lieu of the price. The Bourse will disseminate the relevant information through its website at <a href="http://www.m-x.ca">www.m-x.ca</a>.</p> <p>Approved participants for both the seller and buyer must also complete and submit a second block trade reporting form to the Bourse’s Market Operations Department after 9:30 p.m. GMT on the next trading day, once the closing price of the index has been published.</p> <p>In addition to the agreed-upon basis, this second form must specify both the closing level of the index and the price of the BIC to the nearest 0.01 index point increment. The Bourse will disseminate the relevant information both through its website at <a href="http://www.m-x.ca">www.m-x.ca</a> and also through its High Speed Vendor Feed.</p>

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	<p>(As soon as practicable and in any event within the following time delay)</p>	
<p><b>Futures contracts on the FTSE Emerging Markets Index</b></p>	<p>15 minutes</p>	<p>100 contracts</p>

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<b>Three-Month Canadian Bankers’ Acceptance Futures Contracts quarterlies five through eight (BAX Reds)</b>	15 minutes	1,000 contracts
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**Table 2: Block trades priced at a basis to the index close (BIC) on FTSE Emerging Markets Index Futures Contracts**

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### Circular 141-12: Summarised comments and responses

**Note:** Of the 6 comment letters received, 3 favoured the proposal, a support rate of 50%.

<b>Item No.</b>	<b>Arguments for the proposal</b>	<b>Number of market participant</b>
1	This change is both appropriate and timely, especially as more OTC derivatives business should migrate towards exchanges in light of impending regulatory reforms.	1 participant
2	Block trades are standard features of comparable markets, and will improve access to exchange traded markets for users with large size orders, in line with international best practices of major electronic derivatives exchanges.	2 participants
3	The increased participation from block trades will provide a welcome boost to open interest and overall market activity without any loss of transparency, while facilitating enhanced market efficiency through improved execution quality and price certainty for large transactions that would otherwise be negotiated away from the organized market.	3 participants
4	An increase in activity in more distant contracts would ultimately benefit every participant in the Canadian futures market.	1 participant

Item No.	Arguments against the proposal	Number of market participants	Response
1	When there isn't enough liquidity in the book to fill a large order, the order should fill all resting bids or offers, and then the remaining quantity could be filled or crossed.	3 participants	<p>The Bourse agrees that liquidity needs to be improved. In fact, the very reason for this proposal is to facilitate the execution of large transactions which can not currently be executed with the liquidity in the order book.</p> <p>Orders filled through a block trade will generally flow back to the central order book in a short period of time. By adding blocks on the Three-Month Canadian Bankers' Acceptance Futures, quarterlies five through eight (BAX Reds) and nine through 12 (BAX Greens), the Bourse intends to build open interest levels and increase overall activity.</p>
2	Making it easier to prearrange blocks risks turning a listed market into another dark pool/OTC market. Blocks put the rights of the counterparties above those of the rest of the market, eroding transparency.	3 participants	<p>The majority of block trades are transacted by market participants who won't trade any other way, generally those in the swap community. With no block trade facility available for BAX Reds and Greens, those market participants simply find other products to trade, either on the OTC market or on another exchange which offers such a facility for these types of products. Bringing these large transactions on exchange will enhance market efficiency through improved execution quality and price certainty.</p>
3	The BAX market is sufficiently deep, especially with implied orders. Anything that takes away from that depth is to be avoided.	2 participants	<p>This does not correspond to the feedback the Bourse has received from other market participants, the consensus of which was that there is insufficient liquidity in both the BAX Reds and Greens. The Bourse certainly wishes there were sufficient liquidity to allow for the processing of large orders in the book. Over time, the market will surely develop to that point.</p> <p>It is important to note that the Bourse monitors block trades to ensure that, generally, they make up less than 10% of overall trading volumes. The ratio of block to overall trading volume is</p>

			<p>reported to the AMF on a monthly basis, to ensure that block trades do not make up a significant part of the Bourse's trading activity. For the Ten-Year Government of Canada Bond Futures (CGBs), on which the Bourse offers a block trade facility, the proportion of block to total trading volume is just 2.1% for the last two years running. Moreover, CGB block trades have not hindered liquidity or market depth. Over the past year, CGB volumes have increased 27%, and open interest 30%. Furthermore, a substantial proportion of trades executed through the CGB block trade facility are funnelled back through the book during the next roll, when there is sufficient liquidity for participants to roll their positions from the expiring month to the new month at one price, and at fair market value.</p>
4	<p>When blocks trade at prices different from book trades, erratic jumps could result. Such jumps could hurt the market, trader recruitment and the growth of the BAX.</p>	1 participant	<p>The Bourse does not agree that a block trade facility on BAX Reds and Greens will result in any erratic market jumps.</p> <p>By adding block trades on the BAX Reds and Greens, the Bourse aims to improve open interest levels and overall market activity. The Bourse contends that the realisation of this goal would greatly benefit every participant in the BAX market, foster trader recruitment and further the growth of the BAX.</p>