



CIRCULAR 051-21

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**FREQUENTLY ASKED QUESTIONS
EXCHANGE OF FUTURES FOR RELATED PRODUCTS
ARTICLE 6.208**

The Regulatory Division of the Bourse de Montréal Inc. (the “Division”) has received questions regarding Exchange of Futures for Related Products (“EFRP”) transactions on Bourse de Montréal Inc. (the “Bourse”).

This circular is intended to provide clarity to Approved Participants and Foreign Approved Participants (“Participants” collectively) of the Bourse by answering a series of frequently asked questions (the “FAQ”) on [Article 6.208](#) of the Rules of the Bourse (the “Rules”).

Q1: What are EFRP transactions?

A1: “An EFRP transaction is composed of the privately negotiated execution of a Bourse futures contract and the opposite, simultaneous execution of an approximately equivalent quantity or value of cash product, by-product, related product, or over-the-counter (“OTC”) derivative instrument underlying the futures contract.” ([Article 6.208](#) of the Rules)

The Rules refer to two types of EFRP transactions: Exchange for Physical (“EFP”) and Exchange for Risk (“EFR”). An EFP transaction is the simultaneous execution of a futures contract and a corresponding cash market transaction. An EFR transaction is the simultaneous execution of a futures contract and a corresponding OTC swap or other OTC derivative transaction.

Q2: Are all listed futures contracts eligible for EFRP transactions?

A2: Yes.

Q3: Who may participate in EFRP transactions?

A3: Each party to an EFRP transaction must be an accredited counterparty as defined in Section 3 of the [Derivatives Act](#) (c. I-14.01).



The accounts involved on each side of an EFRP transaction must satisfy at least one of the following:

- accounts have different beneficial ownership;
- accounts have the same beneficial ownership but are under separate control; or
- accounts are commonly controlled but involve separate legal entities which may or may not have the same beneficial ownership.

When parties to an EFRP transaction involve the same legal entity, same beneficial owner, or separate legal entities under common control, the parties must be able to demonstrate that the EFRP transaction is a legitimate arm's length transaction. It is prohibited to effect an EFRP transaction for the purpose of reporting, registering or recording a non-*bona fide* price or transaction.

Q4: Do you need to be registered as an Approved Person to arrange and execute an EFRP?

A4: No. It is not necessary for the individuals involved in these trades to be Approved Persons. The general supervision and compliance requirement expressly impose all responsibility on the Participant. The Participant must achieve compliance with the Regulations of the Bourse and all other applicable legal and regulatory requirements with respect to the execution of an EFRP transaction under this Article.

Q5: How are EFRP transactions reported to the Bourse?

A5: To report an EFRP transaction, the Participant for either the seller or buyer must complete and submit the Bourse's Special Terms Transaction Reporting Form ("STTRF"). If the Participant is acting for both the seller and buyer, the STTRF is submitted to the Market Operations Department ("MOD"). If the parties involve different Participants, each Participant must complete the form relevant to its own party and validate the other Participants's information prior to submitting the STTRF to MOD.

For an EFRP transaction executed before the close of the relevant contract's trading session, the STTRF must be submitted within one hour of determining all trade details. For an EFRP executed after the close, the STTRF must be submitted no later than 10:00 a.m. (Montréal time) the next trading day. MOD will reject an incomplete or erroneous STTRF and the Participant(s) will need to review, validate, and submit a corrected STTRF. The Bourse will reject a transaction that does not comply with the conditions of [Article 6.208](#) and will inform the Participants. Once an EFRP transaction has been submitted and validated, the Bourse will disseminate the transaction on its [Transaction Report webpage](#).



Trade validation and market dissemination of an EFRP transaction does not preclude the Bourse from imposing [late filing fees](#), if the STTRF is not submitted within the prescribed delay, or initiating an investigation and disciplinary procedures in the event that the transaction is subsequently found to have circumvented the requirements of [Article 6.208](#).

Q6: Are there price restrictions on EFRP transactions?

A6: Yes. The price at which an EFRP transaction is arranged and mutually agreed upon by parties to the transaction must be “reasonable” in light of, notably: the size of the transaction; currently traded prices and bid/ask prices in the same contract; the underlying markets; and general market conditions, all at the time of the transaction.

Q7: What are the acceptable physical or cash instruments in an EFP transaction?

A7: The following are acceptable physical or cash instruments:

Futures Contract	Acceptable physical or cash instrument
Interest rate	Fixed income instruments with a correlation coefficient (R) of 0.70 or more, calculated using any generally accepted methodology, maturities and risk characteristics that parallel the underlying instrument of the Futures Contracts or the Futures Contract itself where the use of the Underlying Interest is not practical due to a lack of available market data, including but not limited to: <ul style="list-style-type: none"> ● Money market instruments including asset backed commercial paper, ● Government of Canada and Federal Crown Corporation fixed income instruments, ● Provincials fixed income instruments, ● Investment grade corporates including Maple Bonds and mortgage instruments including collateralized mortgage obligations (CMOs), or ● Fixed income instruments denominated in the currency of a G7 member country
S&P/TSX Index and S&P/MX index	<ul style="list-style-type: none"> ● Stock baskets reasonably correlated with the Underlying Index with a correlation coefficient (R) of 0.90 or more, calculated using any generally accepted methodology, having a weight of at least 50% of the Underlying Index or including 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 exchange transaction, or ● Exchange-traded funds that mirror the Index Futures Contract
Share	<ul style="list-style-type: none"> ● Underlying Interest of the Futures Contract



Q8: What are the acceptable OTC derivative instruments in an EFR transaction?

A8: The following are acceptable OTC derivative instruments:

Futures Contract	Acceptable OTC derivative instrument
Bond	i) Interest Rate Swaps with the following characteristics: <ul style="list-style-type: none"> • Plain vanilla, • Written under the terms of an ISDA® Master Agreement, • Regular fixed against floating rate payments, • Denominated in currency of G7 country, and • Correlation R= 0.70 or greater, calculated using any generally accepted methodology. Or ii) Any individual or combination of OTC Bond, interest rate swap or FRA options (e.g. caps, floors, collars).
Short-term interest rate	i) Any OTC swap or options with characteristics noted above with respect to EFR for Bonds; or ii) Forward Rate Agreements (FRAs) with the following characteristics: <ul style="list-style-type: none"> • Conventional FRA, • Written under the terms of an ISDA® Master Agreement, • Predetermined interest rate, • Agreed start/end date, and • Defined interest (repo) rate.
S&P/TSX Index and S&P/MX index	i) Index Swaps with the following characteristics: <ul style="list-style-type: none"> • Plain vanilla swap, • Written under the terms of an ISDA® Master Agreement, • Regular fixed against floating rate payments against the positive or negative performance of a stock, exchange-traded fund (ETF), basket of Securities or a stock Index, • Denominated in currency of G7 country, and • Correlation R= 0.90 or greater, using a generally accepted methodology; or ii) Any individual or combination of OTC equity or stock Index option positions; or iii) Index Forwards: Standard equity forward contract between two counterparties to buy a specific quantity of a stock, exchange-traded fund (ETF), basket of Securities or stock Index at a predetermined price for settlement at a future date.



Futures Contract	Acceptable OTC derivative instrument
Share	i) Equity Swaps with the following characteristics: <ul style="list-style-type: none"> ● Plain vanilla swap, ● Written under the terms of an ISDA® Master Agreement, ● Regular fixed against floating rate payments against the positive or negative performance of a stock, exchange-traded fund (ETF), trust unit, basket of Securities or a stock Index, ● Denominated in currency of G7 country; or ii) Any individual or combination of OTC equity Option positions; or iii) Equity Forwards: Standard equity forward contract between two counterparties to buy a specific quantity of a stock, exchange-traded fund (ETF), trust unit, basket of Securities or stock Index at a predetermined price for settlement at a future date.

Q9: What are the recordkeeping requirements for EFRP transactions?

A9: Each party to an EFRP transaction must maintain full and complete records and documentary evidence relating to the transaction, including but not limited to all records relating to the purchase or sale of the cash market or OTC derivative component of the transaction and to any transfer of funds or ownership made in connection with such transaction. The documentary evidence must be authentic and comprehensible. Such records include, but are not limited to:

- documentation customarily generated in accordance with market practice such as cash account statements, trade confirmation statements, ISDA® Master Agreements, and other documents of title;
- third party documentation supporting proof of payment or transfer of title such as canceled checks and bank statements;
- cash account statements and cash instruments Clearing Corporation (e.g. CDS Clearing and Depository Services Inc.) documents;
- futures contracts order tickets (which must clearly indicate the time of execution of the EFRP transaction); and
- if the price at which the EFRP transaction is not within the prevailing market prices at the time of the transaction, records demonstrating that the price is reasonable.



Q10: Who is responsible for providing the documentation when the Division requests it?

A10: Records related to the EFRP transaction must be provided to the Division upon request. It is the responsibility of the Participant to obtain and provide on a timely basis records of their clients as requested by the Division. The Division will accept that the requested information be provided by the Participant or the Participant's client directly.

Q11: Can affiliated accounts negotiate and execute EFRP transactions with each other?

A11: Yes, provided that the parties are able to demonstrate that the EFRP transaction was a legitimate arms-length transaction.

Q12: Are transitory EFRP transactions permitted?

A12: No. Generally speaking, transitory EFRP transactions occur when the execution of one EFRP is contingent upon the execution of another EFRP transaction, or related position transaction, between the same parties. These transactions result in the offset of the related positions. EFRP transactions involving Futures Contracts listed and traded on the Bourse are only permitted if such transactions are executed in accordance with the requirements of Article 6.208.

Q13: Can you enter into an EFRP transaction to circumvent the contract month roll?

A13: No. Neither party to an EFRP transaction may enter into the transaction to circumvent the contract month roll in the corresponding Security or Derivative Instrument.

Q14: What other requirements should the Participant be aware of?

A14: The Participant should consult [Article 6.208](#) of the Rules for an extensive list of its requirements.

Questions regarding this FAQ may be directed to the Regulatory Division at 514-787-6530, toll-free at 1-800-361-5353 #46530, or at info.mxr@tmx.com.

Julie Rochette
Vice President and Chief Regulatory Officer
Bourse de Montréal Inc.