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**CIRCULAR 066-17**

May 15, 2017

## REQUEST FOR COMMENTS

### **AMENDMENTS TO THE *PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS OF THE BOURSE TO RENDER THE USE OF THE “USER-DEFINED STRATEGY” FACILITY BY APPROVED PARTICIPANTS MANDATORY***

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

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to the *Procedures Applicable to the Execution of Strategies Involving Options* of the Bourse to render the use of the “User-Defined Strategy” Facility by Approved Participants Mandatory. Amendments were also made to the *Procedures applicable to the execution of strategies involving futures and options on futures* of the Bourse.

The Bourse considers making these amendments effective on August 1<sup>st</sup>, 2017 before market opening.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice on June 15, 2017. Please submit your comments to:

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Legal Counsel  
Office of the General Counsel  
Bourse de Montréal Inc.  
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Montréal, Québec H4Z 1A9  
**Email: [legal@tmx.ca](mailto:legal@tmx.ca)**

A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M<sup>e</sup> Anne-Marie Beaudoin  
Corporate Secretary  
*Autorité des marchés financiers*  
800 Victoria Square, 22<sup>nd</sup> Floor  
P.O. Box 246, Tour de la Bourse  
Montréal (Québec) H4Z 1G3  
**E-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)**

Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file.

### **Appendices**

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

### **Regulatory Amendment Process**

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization ("SRO") by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).



**AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES  
INVOLVING OPTIONS TO RENDER THE USE OF THE “USER-DEFINED STRATEGY” FACILITY BY  
APPROVED PARTICIPANTS MANDATORY**

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## I. SUMMARY

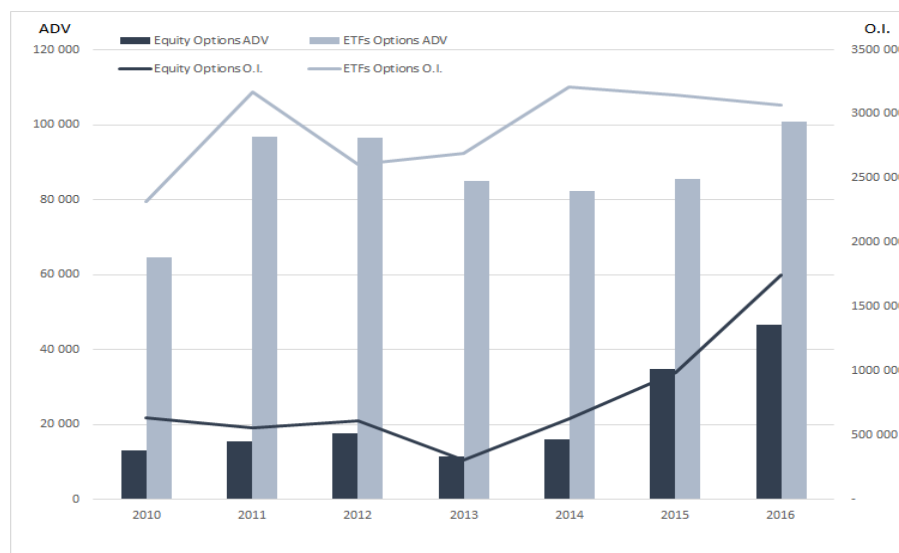
Bourse de Montréal Inc. (the “Bourse”) is proposing to amend the *Procedures Applicable to the Execution of Strategies Involving Options* (the “Procedures”) to render the use of User-Defined Strategies (“UDS”) facility mandatory for the execution of option strategies. The objective is to reduce the operational and financial risks associated with the current manual processing of these transactions by the Market Operations Department (“MOD”) at the request of trading desks, which involves multiple steps, and to support trading efficiency and transparency by standardizing the process for its participants. The Bourse’s proposition to render the use of the UDS facility mandatory for the execution of option strategies aims to empower trading desks in their trading habits, which will allow them to more effectively serve their clients, with respect to creating and executing option strategies.

## II. ANALYSIS

### a. Background

In an effort to develop the options market (mainly the equity and ETF options market), the Bourse implemented in 2011 a complex order book as well as the UDS facility for the benefit of approved participants<sup>1</sup>. The UDS facility allows market participants to create and execute simple and complex options strategies through a standardized framework. With this tool, the Bourse has simplified the process of creating and executing option strategies involving multiple legs for the benefit of Approved Participants. The facility is configured to only accept a list of strategy types as determined by the Bourse. Once approved by the system, the newly created strategy instrument is automatically broadcast in real time to the entire market via the Bourse’s High Speed Vendor Feed (“HSVF”) and Order Book Feed (“OBF”) messaging systems, similar to the broadcast of any other instrument.

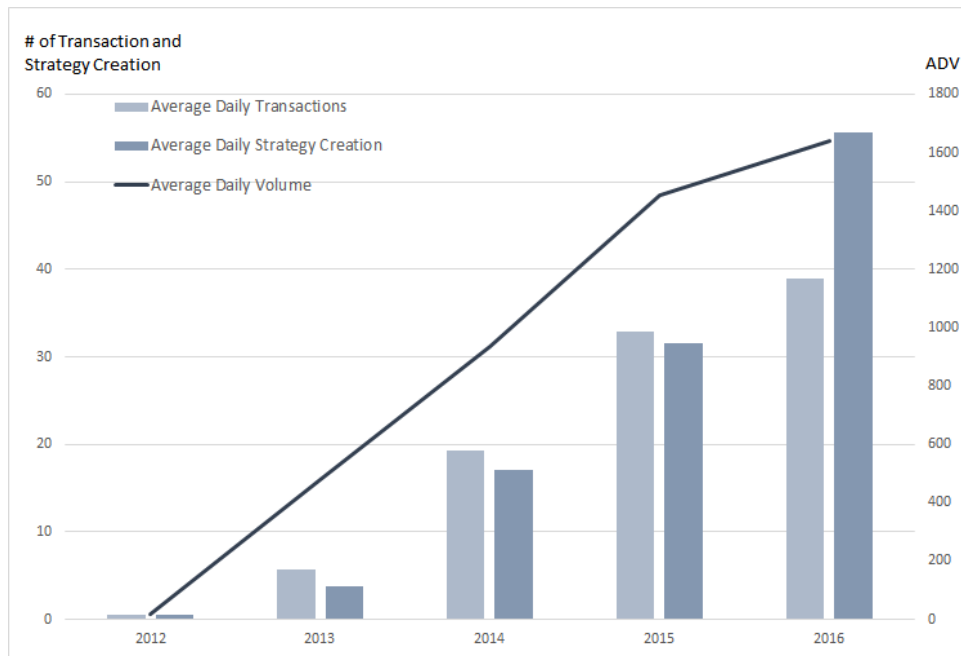
Figure 1: Growth in the Bourse’s Equity and ETFs options Average Daily Volume and Open Interest



<sup>1</sup> See circular 047-11 available on the Bourse website [https://www.m-x.ca/f\\_circulaires\\_en/047-11\\_en.pdf](https://www.m-x.ca/f_circulaires_en/047-11_en.pdf)

The UDS facility has gained broad market acceptance throughout the years, as illustrated in Figure 2 below. The average number of strategies created each day has been steadily increasing every year since its implementation, and currently stands at 56 strategies per day.

Figure 2: UDS statistics: Growth in Average Daily Transactions, Strategy Creation and Volume



## b. Description and Analysis of Market Impacts

### Overview of the UDS facility, strategy creation and execution process:

The UDS facility allows market participants to create customized options strategies based on clients’ needs, provided that they are among accepted strategy types configured by the Bourse and meet acceptable risk parameters established by their brokerage firm.

*“UDS are created 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. The 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<sup>2</sup>.”*

The list of acceptable strategies is published on the Bourse’s website via circulars<sup>3</sup>. The list is updated whenever new strategies are added to the functionality (usually the result of market demand).

Currently, UDS can be configured and executed directly by market participants if the functionality is supported by the Independent Software Vendor (“ISV”) a participant is using for accessing the Bourse’s products or by their own proprietary applications. In the Bourse’s current trading environment, participants can also execute option strategies by calling the MOD, which will execute such strategies manually on their behalf. Over the years, multiple ISVs have adapted their systems to support the UDS facility, to better serve their clients (it is now being offered by the main ISVs used by equity trading desks). Over the years, this functionality has proven to be very effective for executing all acceptable strategy types.

However, although uncommon, a very limited number of trading desks still rely on the MOD to execute these types of transactions because:

- 1) The Bourse allows its assistance for UDS execution in its Procedures, which makes the process quicker and easier for them, and
- 2) The participants are not responsible in case of operational errors if the strategy is executed by the MOD. Rather the reputational and financial risks associated with execution errors are assumed by the Bourse itself.

Market Supervisors in the MOD estimate at about 25 the number of UDS executed manually on a monthly basis (for an approximated volume of 1000 contracts). The processing time is estimated at 30 minutes on average, if no interruptions or problem are encountered. Throughout the process, there are numerous manual entries in SOLA trading platform, email exchanges with participants and reporting of details on the Bourse’s website. A typical manual entry of a UDS transaction includes the following activities:

- Answer client phone call and understand the desired strategy
- Note strategy details (quantity, ratios, structure, leg prices etc.)
- Input strategy legs to ascertain whether the strategy as presented by the participants is tradeable.
- Evaluate the validity of the debit/credit asked
- Call back the client parties if an adjustment to the strategy needs to be made
- Call market makers quoting on the legs comprising the strategy to present them the strategy and ascertain whether they have any interest in transacting against said strategy.
- Confirm the result with the initial participant (fills, prices, quantities)

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<sup>2</sup> Excerpt from the Procedures applicable to the execution of strategies involving options.

<sup>3</sup> Most recent circular detailing the list of UDS acceptable strategy types is available on the Bourse website [http://www.m-x.ca/f\\_circulaires\\_en/069-15\\_en.pdf](http://www.m-x.ca/f_circulaires_en/069-15_en.pdf)

The Bourse also wants to highlight that the manual execution of options strategies has somewhat allowed approved participants to disengage from their accountability towards their clients. This has resulted in the Bourse bearing the responsibility of ensuring that the strategies are executed correctly and that the option strategy structure is in fact acceptable. The proposed modifications aim to reverse this trend and empower approved participants with the ability to perform these tasks for their clients.

#### Overview of Market impacts:

The proposed amendments would be drafted such that it would require participants to execute acceptable options strategies through the UDS facility themselves, without relying on the MOD to execute these strategies on their behalf. The MOD's assistance would only be limited to strategy creation if the requested strategy type is not in the Bourse's system.

The Bourse does not anticipate a high impact on its participants and on its markets because of the following reasons:

- The number of approved participants who call the MOD to set-up and execute their equity and ETFs options strategies is limited. Furthermore, most of them have access to the UDS facility, but have not yet made the effort to adopt and use the facility.
- The UDS facility has been offered since March 2011 and is now supported by the majority of ISVs, making its access readily available with a proven track record.
- The Bourse has socialized to potentially impacted participants its intent to render the use of the UDS functionality mandatory for the execution of option strategies. Therefore, participants are expected to make the appropriate changes to accommodate their clients with respect to the proposed procedure amendments.

Impacted participants can adapt to the proposed mandatory use of UDS in the following ways:

- Adopt the UDS facility if they have access to it.
  - To that extent, since 2015, the Bourse has published a guide on its website to help participants familiarize themselves with the tool and if feasible develop to it.<sup>4</sup>
- Ask clients to execute each leg of the strategy individually via the legs' central limit order book (this however comes with execution risk).
- Approved Participants who are not willing to invest in development can transfer the strategy order flow to brokers who have adopted the UDS facility.

The Bourse believes that the proposed modifications will benefit the marketplace by:

- Standardizing and facilitating option strategies creation and execution, thus increasing market efficiency and transparency.
- Harmonizing UDS procedures with international practices (see section C).

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<sup>4</sup> See [https://www.m-x.ca/f\\_publications\\_en/understanding\\_uds\\_en.pdf](https://www.m-x.ca/f_publications_en/understanding_uds_en.pdf)

- Reducing operational risks (and its impacts) associated with the manual execution of option strategies by the MOD (increasing operational processes efficiency across organizations).

### c. Comparative Analysis

International Exchange procedures do not promote the possibility to configure UDS on the phone with the assistance of the market operation department, but rather only refer to the electronic self-entry process. Therefore, the Bourse aims to align with international practices in standardizing procedures for executing UDS.

Table 1: International Benchmarking of UDS-like functionality entry process

Exchange	Electronic UDS-like functionality for trading equity options strategies <sup>5</sup>	Details
CBOE	COBWeb	COBWeb <sup>SM</sup> - The CBOE Complex Order Book on the Web <i>Now you can generate the price and size of CBOE top-of-the-book resting complex spread orders in real-time. Spread types include Combos, Diagonals, Straddles, Pseudo Straddles, Ratio Spreads, Vertical Spreads, Time Spreads, and others. COBWeb is only available during CBOE trading hours.</i>
Nasdaq PHLX	PHLX Complex Order	PHLX Complex Orders <i>The PHLX Complex Order permits the execution of multi-leg option orders and stock-tied orders. Operating on the high-speed PHLX XL trading platform, the PHLX Complex Order system enhances electronic execution possibilities for Complex Orders, providing spread price protection and the potential for price improvement.</i>
Eurex	StrategyWizard	The Strategy Wizard <sup>SM</sup> facilitates trading option and option volatility strategies in 45 different flavors, allowing traders to take advantage of the opportunities these strategies offer.  <i>The Strategy Wizard<sup>SM</sup> enables all market participants to request and trade strategies in line with their investment and trading needs, based on predefined strategy types (such as Butterflies, Condors, Straddles and more). The Strategy Request Entry window allows a trader to define a specific strategy, based on the chosen strategy type. The specific details of the strategy are defined in the Contract fields. The strategy can then be customized by selecting the maturities and exercise prices of the contracts included in the strategy. [...] Submitting the strategy request announces the creation of the strategy to the entire market.</i>

<sup>5</sup> CBOE: <http://www.cboe.com/cob>

Nasdaq PHLX: <http://business.nasdaq.com/trade/US-Options/PHLX-Complex-Orders.html>

Eurex: [http://www.eurexchange.com/blob/116002/c8cae74873c7f110edb17dc01692c5ae/data/Strategy\\_Wizard.pdf](http://www.eurexchange.com/blob/116002/c8cae74873c7f110edb17dc01692c5ae/data/Strategy_Wizard.pdf).

ASX: [http://www.asx.com.au/documents/rules/asx\\_24\\_procedures.pdf](http://www.asx.com.au/documents/rules/asx_24_procedures.pdf) and

[http://www.asx.com.au/documents/products/ASX\\_Trade24\\_Developers\\_Guide\\_Markets\\_and\\_Functionalities\\_v1\\_0.pdf](http://www.asx.com.au/documents/products/ASX_Trade24_Developers_Guide_Markets_and_Functionalities_v1_0.pdf)



Exchange	Electronic UDS-like functionality for trading equity options strategies <sup>5</sup>	Details
ASX	Custom Market	<p>The Custom Market allows Trading Participants to create their own multi-legged contingent strategies consisting of up to 6 legs.</p> <p><i>Custom Market orders may consist of either futures or options or a combination of both. The Custom Market eliminates legging risk as the order is filled at a user-defined ratio and at a specific leg prices for all contingent legs of the order.</i></p> <p><i>Request the exact strategy by sending a Custom Market RFQ (CRFQ) via User Text before entering the order, regardless of whether the order has been lodged.</i></p> <ul style="list-style-type: none"> <li>• <i>Enter the custom market order and ensure that the volume ratio is at the lowest common denominator.</i></li> </ul>

#### d. Proposed Amendments

The Bourse proposes to amend the Procedures containing specific sections related to UDS creation and execution by the MOD. The Bourse hereby proposes the following modifications:

- Amend the sections *Creation by the MOD* and *Execution by the MOD* of the *Procedures applicable to the execution of strategies involving options*.

The proposed modifications also include minor clarifications to the wording used in the above procedure. More specifically, the Bourse took the opportunity to revisit section B (i), (ii) and (iii) of the *Procedures applicable to the execution of strategies involving options*, providing additional details on how the execution of strategies by the MOD is performed. These proposed amendments are considered as “housekeeping” modifications and are not intended to change the meaning of the procedure, and are necessary to accurately reflect the current practices of the Bourse.

- For consistency matters, amend the section *Creation by the MOD* of the *Procedures applicable to the execution of strategies involving futures and options on futures*.

### III. AMENDMENT PROCESS

The amendment process was triggered by the Bourse’s desire to render the use of the UDS functionality mandatory for the execution of option strategies.

### IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed amendments have no impact on the Bourse’s technological systems. By requesting these modifications to its Procedure, the Bourse aims to promote the use of the UDS functionality to its ISVs and market participants. Therefore, the Bourse expects market participants to implement and make available the UDS functionality to conform to this change. In that spirit, the Bourse proposes multiple ways to help market participants adapt to the proposed modifications (see section B).

## **V. OBJECTIVES OF THE PROPOSED AMENDMENTS**

The objective of the amendments is to reduce the operational risk associated with the current manual processing of these transactions by the MOD, along with supporting market efficiency and transparency. The Bourse believes that the amendments will also empower trading desks to serve more effectively their clients.

## **VI. PUBLIC INTEREST**

The proposed amendments will align the Bourse with international practices related to UDS functionality. The objective of reducing operational errors will also benefit the marketplace.

## **VII. EFFICIENCY**

The proposed amendments will enhance market efficiency by harmonizing the Bourse's Procedures with international practices, facilitating operational processes for market participants. Standardizing the UDS process will improve operational efficiency throughout the whole transaction cycle as well.

## **VIII. PROCESS**

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the Autorité des Marchés Financiers, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

## **IX. ATTACHED DOCUMENTS**

Proposed amendments to the *Procedures applicable to the execution of strategies involving options* of the Bourse.

Proposed amendments to the *Procedures applicable to the execution of strategies involving futures and options on futures* of the Bourse.

## 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 or executing 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 (“HSVF”) and the Order Book Feed (“OBF”), 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 or If a strategy can not be created using the UDS facility because it is not accepted by the Bourse’s trading system, 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 information provided by the approved participants to the MOD must include the option series involved and 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.~~

~~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 (HSVF) and the Order Book Feed (OBF), 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 and executing the orders.

### **Execution by MOD**

All option strategies must be executed using the Bourse's UDS facility. Notwithstanding the aforementioned, if a strategy cannot be created and broadcasted using the UDS because the strategy type is not supported by the UDS facility is not accepted by Bourse, or because one of the strategy legs is the underlying shares ~~approved participant does not have the capability to create and place orders on a UDS~~, the approved participant may submit to the Bourse a strategy order for execution 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~~ 10 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 based on the market maker quoting the tightest market on the options legs comprising the strategy. ~~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 their quotes on the rotation;
  - (iii) For strategies involving 100 contracts or more per leg, all qualifying market makers quoting on the option legs of the strategy 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 cannot 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 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 a strategy cannot be created using the UDS facility because it is not accepted by the Bourse’s trading system, ~~n 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 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 or executing a UDS when applicable.

### **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 (“**HSVF**”) and the Order Book Feed (“**OBF**”), 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 a strategy can not be created using the UDS facility because it is not accepted by the Bourse’s trading system, the approved participant may contact the MOD and request the creation of the UDS. The information provided by the approved participants to the MOD must include the option series involved and the quantity ratio,

If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse’s High Speed Vendor Feed (**HSVF**) and the Order Book Feed (**OBF**), 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 and executing the orders.



## **Execution by MOD**

All option strategies must be executed using the Bourse's UDS facility. Notwithstanding the aforementioned, if a strategy cannot be created and broadcasted using the UDS because the strategy type is not supported by the UDS facility, or because one of the strategy legs is the **underlying shares** the approved participant may submit to the Bourse a strategy order for execution 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 10 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 based on the market maker quoting the tightest market on the options legs comprising the strategy.
  - (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 their quotes
  - (iii) For strategies involving 100 contracts or more per leg, all qualifying market makers quoting on the option legs of the strategy 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 cannot 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 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 a strategy cannot be created using the UDS facility because it is not accepted by the Bourse’s trading system, 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.