



<input checked="" type="checkbox"/> Trading - Interest Rate Derivatives	<input checked="" type="checkbox"/> Back-office - Options
<input checked="" type="checkbox"/> Trading - Equity and Index Derivatives	<input checked="" type="checkbox"/> Technology
<input checked="" type="checkbox"/> Back-office - Futures	<input checked="" type="checkbox"/> Regulation

**CIRCULAR 068-17**

May 16, 2017

## REQUEST FOR COMMENTS

### INTRODUCTION OF AUCTIONS

#### **INTRODUCTION OF ARTICLE 6369B AND AMENDMENTS TO ARTICLES 6007, 6368, 6371, 6372, 6375 AND 6391 OF RULE SIX OF BOURSE DE MONTREAL INC.**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the introduction of article 6369B and amendments to articles 6007, 6368, 6371, 6372, 6375 and 6391 of the Rule Six of Bourse regarding the introduction of an auction process during the trading session.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, on June 16, 2017 at the latest. Please submit your comments to:

M<sup>e</sup> Martin Jannelle  
Legal Counsel  
Office of the General Counsel  
Bourse de Montréal Inc.  
Tour de la Bourse  
800 Victoria Square, P.O. Box 61  
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).



## INTRODUCTION OF AUCTIONS

### INTRODUCTION OF ARTICLE 6369B AND AMENDMENTS TO ARTICLES 6007, 6368, 6371, 6372, 6375 AND 6391 OF RULE SIX OF BOURSE DE MONTREAL INC.

#### TABLE OF CONTENTS

I. SUMMARY	2
II. ANALYSIS	2
a. Background	2
b. Description and Analysis of Market Impacts	2
c. Comparative Analysis	6
d. Proposed Amendments	8
III. AMENDMENT PROCESS	9
IV. IMPACTS ON TECHNOLOGICAL SYSTEMS	9
V. OBJECTIVES OF THE PROPOSED AMENDMENTS	9
VI. PUBLIC INTEREST	9
VII. EFFICIENCY	9
VIII. PROCESS	9
IX. ATTACHED DOCUMENTS	10

## I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) wishes to introduce in its rules an auction process during the trading day that could be applied to products selected by the Bourse that have not yet reached their full potential. The Bourse proposes to use the same process currently used during the opening stage at different points throughout the trading day.

## II. ANALYSIS

### a. Background

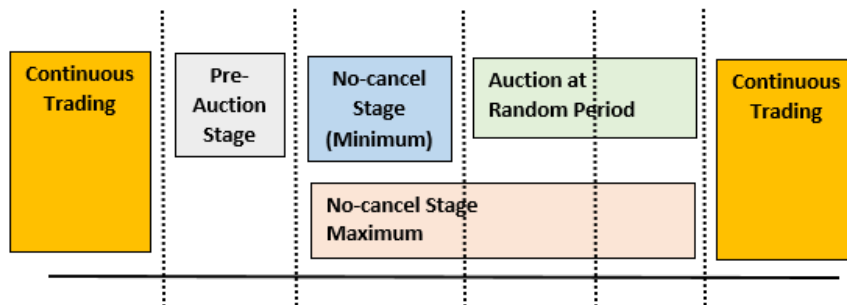
This initiative was prompted by products which trade very little. While the Bourse has many successful products, some of the Bourse’s products require more support to reach their full potential. The Bourse wishes to develop a solution that will attract liquidity to both existing and future products. Examples of such derivative products are the 30-year Government of Canada Bond Futures (LGB) and the 30-Day Overnight Repo Rate Futures (ONX) both of which had a total volume of 0 in 2015 and 2016.

The Bourse believes that introducing auctions at different points throughout the trading day could increase trading volumes, generate liquidity, and improve the price discovery process for products that have yet to reach their full potential.

### b. Description and Analysis of Market Impacts

An auction consists of a pre-auction stage and an auction stage. The pre-auction stage is a non continuous trading stage during which bids and offers entered by market participants queue up at various prices for a given contract. This non-continuous trading stage implies that no trades are executed during this period. The pre-auction stage is followed by an auction stage: the auction is concluded and the auction price is determined. As indicated below, the auction price will be determined using the Calculated Theoretical Opening methodology (described under section II. b. (i) of this analysis). Diagram 1 provides an example of how the Bourse would apply auctions.

**Diagram 1 - Auction Example**



The various stages of the auction process are further described under section II. b. (i) below.

Auctions would be used to improve liquidity and price discovery. The intent is for auctions to concentrate liquidity by bringing supply and demand together. This will generate increased opportunities to initiate or close positions for products that have not yet built sufficient liquidity to sustain an effective continuous trading market. These opportunities would be created by consolidating order flows at specific points in the day. Holding auctions should result in bids and offers, thereby generating interest to participate in the auction.

The purpose of auctions is also to emulate the realities of the underlying products which often trade by appointment. The entering of orders would lead to increased supply and demand which will help accommodate orders of different sizes. Knowledge of increased supply and demand at specific points in the day will garner confidence that orders can be easily executed. This perception will encourage market participants to enter orders and ultimately contribute to the creation of a vibrant and liquid market.

Auctions provide the unique advantage of offering an indicative price, supply, and demand while in a non trading state.

The Bourse could apply several auctions throughout the trading day at times which would coincide with economic, fiscal or monetary policy announcements; these events are typically the catalyst for increased demand and supply within the markets.

#### **(i) Process and Methodology**

The Bourse proposes to use its Calculated Theoretical Opening (CTO) price methodology, currently used as part of the pre-opening stage of the regular trading session, to determine the auction price under an auction regime. At the moment of the auction, the bids and offers that are entered in the electronic trading system are used to determine the price that will maximize the traded volume; this price is referred to as the CTO price. Ancillary procedures will apply if the CTO cannot be calculated in the preceding manner.

The above mentioned CTO methodology is already being used by the Bourse and is identified in Article 6375<sup>1</sup> of the Rules of the Bourse:

*“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.*

---

<sup>1</sup> [http://m-x.ca/f\\_regles\\_en/06\\_en.pdf](http://m-x.ca/f_regles_en/06_en.pdf)

*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.*

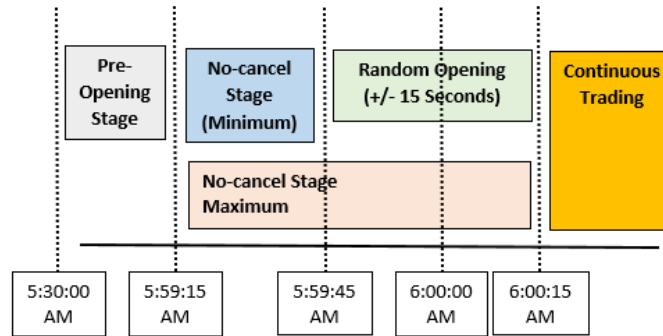
*Stop limit orders do not enter into the CTO calculation. “*

Presently, the CTO price calculation is preceded by a no cancellation stage which lasts for a time period determined by the Bourse but which does not exceed the last 2 minutes prior to the CTO price calculation. Additionally, for certain products (e.g. money market derivatives and bond market derivatives), the CTO is preceded, in conjunction with the no cancellation stage, by a random opening period of plus or minus 15 seconds. This means that the CTO price calculation randomly occurs within a window that spans 15 seconds before and after the opening time. However, for other products, such as equity and index derivatives, there is no random opening period in conjunction with the no cancellation stage, the rationale being that the derivative market open must be synchronised with the start of activity for the underlying interest.

The no cancellation stage and the random opening period are tools to counter potentially manipulative practices. The non cancellation period prevents traders from canceling potentially illegitimate orders that were entered to mislead other traders about supply and demand or to influence the CTO price. The random opening period acts as an additional deterrent by not revealing the exact CTO calculation time, which will make it harder for traders to offset their spurious orders or identify the moment at which they can influence the CTO price. For these reasons, the auction model proposed by the Bourse will also include a no cancellation stage and, when applicable and determined by the Bourse, a random opening period.

Appendix 1 contains a list of products and their current trading hours and stages. The list also includes products that are the subject of a no cancellation stage and, when applicable, a random opening period at the opening of the respective market. Diagram 2 presents the current opening for a product listed on the Bourse; note that the product is subject to a no cancellation and random opening period:

**Diagram 2 - Current Opening of a Bourse Product**

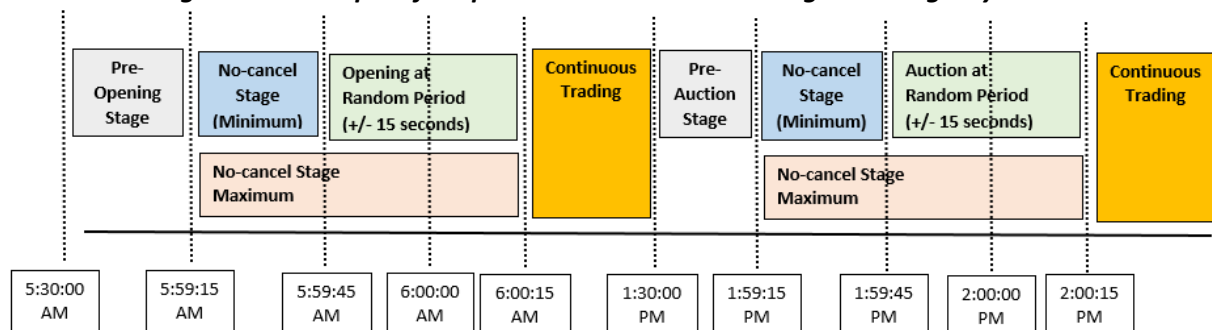


With respect to the pre-opening stage and as per article 6369 of the rules of the Bourse, the following order types, depending on the product type, can be entered in the pre-opening stage in order to participate in the opening stage: Limit order, stop limit order, opening/closing price order (Market on Open and Market on Close), hidden quantity order, fill and kill order. Although the duration of the pre-opening stage is fixed, the total duration of the pre-opening stage, the no cancellation stage, and the opening (inclusively) vary from one product to another due to the random opening feature. During the pre-opening stage, the no cancellation stage and the opening stage, the Bourse provides transparency by disseminating both quantity and price. All market participants can partake in the opening.

Under an auction model, the order types that can be entered in the pre-opening stage for participation in the opening, the duration of the pre-opening stage, the level of transparency offered by the Bourse, and the non-restriction on participation will remain the same as those under the current pre-opening model. Note that the principle that applies to the total duration of the pre-opening stage, the no cancellation stage and the opening (inclusively) will also apply to the total duration of the pre-auction stage, the no cancellation stage and the auction (inclusively); it will vary for some products due to the random opening feature, as determined by the Bourse.

Diagram 3 presents an example of the proposed auction model in a full trading day. It demonstrates the pre-auction stage, the auction stage, and the continuous trading stage.

**Diagram 3 - Example of Proposed Auction Model During a Trading Day\***



\* The hours are for the sake of the example only.

## **(ii) Determination of Derivative Instruments Subject to Auctions**

It is important to note that auctions will not apply to all Bourse products but rather only to products selected by the Bourse. The Bourse will base its decision on the following criteria among others:

- a. trading volume:
  - i. is the result of block trades;
  - ii. is the result of crosses;
  - iii. was traded by the same trader and or participant;
- b. important increases or decreases in trading volume;
- c. the number of trades in various periods of time;
- d. characteristics of underlying market;
- e. the open interest;
- f. trading volume statistics and trading characteristics;
- g. contract liquidity relative to underlying;
- h. the quality of bid-ask spreads; and
- i. trading characteristics of the continuous trading and auction stages.

The products, trading stages (no cancellation stage and random opening), number of auctions per day, as well as the auction times (hours) will be identified on a quarterly basis within the two first weeks of the last month of the current quarter, or as close as reasonably possible. A reevaluation of products, trading stages, number of auctions per day, and auction times can occur in the event of a material economic event. A circular will be published at least five days before the effective date of any change (implementation, modification or removal of auctions with respect to a product).

In summary the Bourse believes that the consolidation of order flows via auctions will improve the price discovery process and provide liquidity for orders.

### **c. Comparative Analysis**

Exchanges around the world, like the Bourse, use auctions or “processes” similar to auctions at various trading stages (opening, intraday, closing). In fact, some exchanges with products similar to the Bourse’s have chosen to use market models that account for more than one auction throughout the trading day.

For the purposes of the comparative analysis, the Bourse has identified four (4) exchanges that use auctions more than once per day (the list is not exhaustive): the Japan Exchange Group, the Nasdaq Dubai (Derivatives), the Spanish Stock Market (Bolsa de Madrid) and the CME Group. The summary of this analysis as well as the trading hours and stages at the benchmarked exchanges can be found in Table 1.



**Table 1 - Summary of Benchmarking Analysis**

Exchange	Products	Number of Auctions per day (including open when applicable)	Presence of a Continuous Trading stage	No cancellation Feature prior to auction	Random Period to Conclude Auction	Trading Hours and Stages References
Japan Exchange Group	Index Futures, Index Options, JGB Futures and Options on Futures	Up to 6 auctions for certain products	Yes	Yes (Nikkei 225 Futures, Nikkei 225 mini, TOPIX Futures (excluding mini-TOPIX Futures))	No	<a href="http://www.jpex.co.jp/english/derivatives/rules/trading-hours/index.html">http://www.jpex.co.jp/english/derivatives/rules/trading-hours/index.html</a>
Nasdaq Dubai (Derivatives)	Single Stock Futures and Index Futures on the FTSE DIFX UAE 20 Index	2 auctions per day	Yes	Yes	No	<a href="http://www.nasdaqdubai.com/assets/docs/members/Nasdaq-Dubai-Trading-Manual-Derivatives.pdf">http://www.nasdaqdubai.com/assets/docs/members/Nasdaq-Dubai-Trading-Manual-Derivatives.pdf</a>
Spanish Stock Market (Bolsa de Madrid)	Equities, ETF, warrants	Up to 2 auctions per day	Yes for the "Main Trading market", no for the Fixing market	No	Yes	<a href="http://www.bolsamadrid.es/ing/inversores/Agenda/HorarioMercado.aspx">http://www.bolsamadrid.es/ing/inversores/Agenda/HorarioMercado.aspx</a> ; <a href="http://www.bolsamadrid.es/docs/SBolsas/docsSubidos/SIBE/marketmodel.pdf">http://www.bolsamadrid.es/docs/SBolsas/docsSubidos/SIBE/marketmodel.pdf</a>
CME Group (GLOBEX)	Agriculture Derivatives, Energy Derivatives, Equity Index Derivatives, Foreign Exchange Derivatives, Interest Rates Derivatives, Metals Derivatives, Real Estate Derivatives, Weather Derivatives	up to 2 auctions (includes open) per day for certain products	Yes	Yes	No	<a href="http://www.cmegroup.com/trading-hours.html#agriculture">http://www.cmegroup.com/trading-hours.html#agriculture</a> ; <a href="http://www.cmegroup.com/globex/files/GlobexRefGd.pdf">http://www.cmegroup.com/globex/files/GlobexRefGd.pdf</a> ; <a href="http://www.cmegroup.com/confluence/display/EPICSANDBOX/Market+and+Instrument+States">http://www.cmegroup.com/confluence/display/EPICSANDBOX/Market+and+Instrument+States</a>

The Japan Exchange Group was selected for this analysis given that it is a derivatives market, with, for the most part, similar products to those of the Bourse and since its market models include auctions. Similar to the Bourse, Japan Exchange Group lists Index Futures, Index Options, Government Bond Futures, and Options on Futures. Additionally, Japan Exchange Group markets include a continuous trading stage as well as a no cancellation feature which are elements that are currently found on the Bourse's markets and which will be incorporated under the auction model.

As for Nasdaq Dubai (Derivatives), it was selected for this analysis given that it lists single stock futures, a product which was recently launched on the Bourse, and since its market model consists of auctions. As is presently the case with the Bourse, Nasdaq Dubai also applies a continuous trading stage to its markets and utilizes a no cancellation stage, features which the Bourse intends to incorporate within the auction model.

The CME Group was selected for this analysis given its geographic proximity and product similarities. CME Group holds up to two auctions (including open) per day depending on the product type and includes a continuous trading stage as well as a no cancellation feature. Its interest rates products are subject to a single auction (including open) per day whereas its agriculture products are subject to up to two auctions (including open) per day.

Lastly, although it is an equity market, the Spanish Stock Market (Bolsa de Madrid) was selected given that its "Fixing" market is reserved for securities that are "less liquid", which is similar to the problem which the Bourse is attempting to tackle. As per a document<sup>2</sup> published by the Spanish Stock Market the "Fixing" market "facilitates efficient price formation and reduces volatility"; which is aligned with the Bourse's objectives. The "Fixing" market consists of only two auctions throughout the trading day and makes use of a random period to conclude the auctions. The random period feature is also currently used by the Bourse for specific products (see Appendix 1) at the open and will be applied under the auction model.

Based on this analysis, one will note that: (i) the number of auctions during a trading day may vary from one exchange to the other; (ii) one exchange does not have any "no-cancellation period" in its auction process; and (iii) three exchanges do not use a random opening feature. In fact, the stages that precede an auction could be set up in many different ways. The Bourse is of the view that using the process it currently uses at the opening of the trading day, with a no-cancellation stage and, when applicable, a random opening, is an appropriate solution since, among other reasons, such process is well known by all its market participants.

#### **d. Proposed Amendments**

Please see Appendix 2 for the specific proposed amendments to the Rules of the Bourse.

---

<sup>2</sup> <http://www.bolsamadrid.es/docs/SBolsas/docsSubidos/SIBE/marketmodel.pdf>

### **III. AMENDMENT PROCESS**

The Bourse considers that auctions are a suitable tool to improve the liquidity and price discovery process of its products that have yet to develop enough to sustain an efficient continuous trading market.

### **IV. IMPACTS ON TECHNOLOGICAL SYSTEMS**

Based on a review of the technological requirements, the Bourse has concluded that this initiative will not require any development work but rather only a configuration change, which it considers to be of minimal impact on its technological systems. The Bourse expects this initiative to have very little impact on market participants' technological systems given that a process similar to an auction is already used on the Bourse's markets at the pre-opening stage of trading. Nevertheless, the Bourse has reached out to a limited number of market participants and vendors and asked feedback concerning possible impacts. In addition, the Bourse will invite market participants to raise any impact they may foresee as part of the request for comments process, in order for the Bourse to take those into account in its implementation plan.

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

This initiative was prompted by the lack of trading activity on certain products. The Bourse believes that auctions are the most viable solution, for selected products, so as to increase trading volumes, improve liquidity and improve the price discovery process.

### **VI. PUBLIC INTEREST**

The Bourse considers that the present initiative is in the interest of the public since its goal is to create liquidity and mitigate potential price swings. The present initiative will offer buyers and sellers an efficient means of undertaking or liquidating positions by providing an additional trading stage other than continuous trading. The Bourse considers that this initiative and the associated rule amendments are not contrary to public interest and will comply with securities legislation.

### **VII. EFFICIENCY**

The Bourse is of the view that the present initiative will improve market efficiency. As mentioned above, the purpose of auctions is to offer an additional means by which to improve the price discovery process and liquidity of certain products in their early life stage.

### **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**

- Appendix 1: Current Trading Hours and Stages
- Appendix 2: Proposed Amendments to the Rules

## APPENDIX 1

**PRODUCTS – TRADING HOURS & STAGES**

All trading hours for products listed on SOLA are determined by the Montréal Exchange (MX). In the case of a modification to these trading hours or stages, MX will issue a circular describing the modification.

**Definitions of stages**

<b>Pre-opening:</b>	Order entry, cancellation and modification <i>permitted</i>
<b>No-cancellation:</b>	Order entry <i>permitted</i> ; cancellation and modification <i>not permitted</i>
<b>Opening:</b>	Order entry, cancellation and modification <i>permitted</i>
<b>Closing:</b>	Order entry, cancellation and modification <i>not permitted</i>
<b>Extended session:</b>	Order entry, cancellation and modification <i>permitted</i>

**Money Market Derivatives**

<b>ONX - OIS - BAX OBW – OBX - OBY OBZ</b>	5:30 a.m.	Pre-opening
	5:59:15 a.m.	No-cancel
	6:00* a.m.	Opening (regular session)
	4:30 p.m.**	Closing

<b>STRATEGIES: ONX – OIS - BAX OBW – OBX - OBY OBZ</b>	5:30 a.m.	Pre-opening
	5:59:15 a.m.	No-cancel (BAX Strategies)
	6:00:15 a.m.	No-cancel (OBX - ONX - OIS Strategies)
	6:01* a.m.	Opening (regular session)
	4:30 p.m.**	Closing

\* +/- 15 seconds

\*\*During early closing days, money market derivatives close for trading at 1:30 p.m.

**Bond Market Derivatives**

<b>CGZ – CGF - CGB OGB - LGB</b>	5:30 a.m.	Pre-opening
	5:59:15 a.m.	No-cancel
	6:00* a.m.	Opening (regular session)
	4:30 p.m.**	Closing

<b>STRATEGIES: CGZ – CGF - CGB OGB - LGB</b>	5:30 a.m.	Pre-opening
	5:59:15 a.m.	No-cancel
	6:01* a.m.	Opening (regular session)
	4:30 p.m.**	Closing

\* +/- 15 seconds

\*\*During early closing days, bond market derivatives close for trading at 1:30 p.m.

### Index Derivatives

Note: A trading range of -5% to +5% (based on previous day's settlement price) for index futures has been established for the early session only.

EMF SXF SXM SCF SXA SXB SXH SXY SXX SXU	5:30 a.m.	Pre-opening
	5:59 a.m.	No-cancel
	6:00 a.m.	Opening (early session)
	9:15 a.m.	Pre-opening
	9:29 a.m.	No-cancel
	9:30 a.m.	Opening (regular session)
	4:15 p.m.	Closing

### STRATEGIES:

EMF  
SXF  
SXM  
SCF  
SXA  
SXB  
SXH  
SXY  
SXX  
SXU

5:30 a.m.	Pre-opening
5:59 a.m.	No-cancel
6:01 a.m.	Opening (early session)
9:15 a.m.	Pre-opening
9:29 a.m.	No-cancel
9:31 a.m.	Opening (regular session)
4:15 p.m.	Closing

SXO -	5:30 a.m.	Pre-opening
SXJ -	9:31 a.m.	Opening
SXV	4:15 p.m.	Closing

### Equity Derivatives

#### EQUITY AND ETF OPTIONS

5:30 a.m.	Pre-opening
9:30 a.m.*	Opening
4:00 p.m.	Closing

### STRATEGIES: EQUITY AND ETF OPTIONS

5:30 a.m.	Pre-opening
9:35 a.m.*	Opening
4:00 p.m.	Closing

\* The regular session of the equity option market opens at 9:30 a.m. Each option class then opens for trading when a trade occurs on its underlying security on Toronto Stock Exchange. If no such trade has yet occurred, the option class then opens for trading at 9:35 a.m.

#### SHARE FUTURES

5:30 a.m.	Pre-opening
5:59 a.m.	No-cancel
6:00 a.m.*	Opening (early session)
9:15 a.m.	Pre-opening
9:29 a.m.	No-cancel
9:30 a.m.	Opening (regular session)
4:00 p.m.	Closing

### STRATEGIES: SHARE FUTURES

5:30 a.m.	Pre-opening
5:59 a.m.	No-cancel
6:01 a.m.	Opening (early session)
9:15 a.m.	Pre-opening
9:29 a.m.	No-cancel
9:31 a.m.	Opening (regular session)
4:00 p.m.	Closing

\* A trading range of -5% to +5% (based on previous day's settlement price) has been established for the early session only.

### Currency Options

USX	5:30 a.m.	Pre-opening
	9:30 a.m.	Opening
	4:00 p.m.	Closing





## **RULE SIX**

### **TRADING**

#### **A. GENERAL FRAMEWORK AND PROCEDURES**

##### **Section 6001 - 6020**

##### **Limitation on Trading by Members**

(...)

##### **6007 Trading Delays and Halts**

(10.10.91, 22.11.99, 00.00.00)

- a) An official of the Exchange has the authority to take such decisions as may be required to delay the opening in any listed security or to interrupt trading in any such security for any period of less than two hours, to assist in the orderly opening or re-opening of such security.
- b) An official of the Exchange has the authority to extend a delayed opening or a halt of trading for any period of time in order to assist in re-establishing orderly trading.
- c) An official of the Exchange may halt trading in a listed security and determine the conditions and time of resumption of trading.
- d) An official of the Exchange has the authority to take such decisions as may be required to cancel or modify any given intra-session auction period.

(...)

##### **Section 6365- 6401**

##### **Electronic Trading of Derivatives Instruments Traded on the Bourse**

##### **6365 Electronic Trading System**

(25.09.00, 24.09.01)

Derivatives instruments traded on the Bourse through an electronic trading system duly approved by the Bourse will be governed by the trading rules in articles 6365 to 6900 of the Rules.

##### **6366 Access to Electronic Trading**

(25.09.00, 24.09.01, 19.03.02, 03.11.04, 01.03.14)

- A) Only approved participants of the Bourse and restricted permit holders of the Bourse, through their respective clearing approved participants, will have access to the electronic trading for derivatives instruments traded on the Bourse and this, at the following conditions:
  - a) certify to the Bourse that only their designated personnel approved by the Bourse and who has received the required training has access to the said system;
  - b) certify to the Bourse that only the designated personnel approved by a recognized exchange or association as described in article 7452 6) b) ii) of the Rules of the Bourse and who has received the required training has access to the said system;

- c) put in place an internal security procedure for access to the electronic trading system; and
- d) obtain the prior approval of the Bourse.

Each approved participant and each restricted permit holder is entirely and exclusively responsible for any unauthorized access to the said system.

The approved participant must give notice to the Bourse of the termination of employment of its designated personnel approved by the Bourse and this, within a delay of ten (10) business days from the date of termination of employment.

B) Approved participants can authorize clients to transmit electronically orders to the Bourse through the systems of the approved participant, using the approved participant's identifier. In order to do so, the following conditions must be complied with:

#### 1. Definitions

- a) For the purposes of this article, a client is defined:
  - i) as a person, other than those registered as an investment dealer with a securities regulatory authority or approved as a foreign approved participant by the Bourse, having entered into a written agreement with an approved participant which permits to transmit electronically orders to the Bourse through the systems of an approved participant, using the approved participant's identifier;
  - ii) as an investment dealer registered with a securities regulatory authority, or a foreign approved participant of the Bourse, having entered into a written agreement with an approved participant which permits the investment dealer or foreign approved participant to transmit electronically orders to the Bourse, through the systems of the approved participant, using the approved participant's identifier.
- b) For the purpose of this article, the terms "Electronic Trading Rules" refer to *Regulation 23-103 respecting Electronic Trading* (Chapter V-1.1, r. 7.1), as well as any applicable policy statement or notice.
- c) For the purpose of this article, the terms "Bourse and regulatory requirements" refer to the rules, policies and operational procedures of the Bourse, or to any condition imposed by the Bourse for the purpose of the electronic access provided to a client by an approved participant, as well as to applicable securities or derivatives legislation.

#### 2. Conditions

##### 2.1 An approved participant must:

- a) establish, maintain and apply standards that are reasonably designed to manage, in accordance with prudent business practices, the approved participant's risks associated with providing an electronic access to a client, pursuant to paragraph B), including those set out in the Electronic Trading Rules;
- b) assess and document that a client meets the standards established by the approved

participant, under subparagraph a).

- 2.2 The standards thus established by an approved participant, under subsection 2.1, shall include that a client must not have an electronic access to the Bourse, pursuant to paragraph B), unless:
- a) it has sufficient resources to meet any financial obligations that may result from the use of such electronic access by that client;
  - b) it has reasonable arrangements in place to ensure that all individuals using such electronic access, on behalf of the client, have reasonable knowledge of and proficiency in the use of the order entry system that facilitates such electronic access;
  - c) it has reasonable knowledge of and the ability to comply with all applicable Bourse and regulatory requirements;
  - d) it has reasonable arrangements in place to monitor the entry of orders through such electronic access.
- 2.3 An approved participant must assess, confirm and document, at least annually, that a client continues to meet the standards established by the approved participant pursuant to subsection 2.1.
- 2.4 An approved participant must not allow any order to be transmitted to the Bourse, pursuant to paragraph B), unless:
- a) the approved participant is maintaining and applying the standards it has established under subsections 2.1, 2.2 and 2.3;
  - b) the approved participant is satisfied that the client meets the standards established by the approved participant under subsections 2.1, 2.2 and 2.3;
  - c) the approved participant is satisfied that the client is in compliance with the written agreement entered into with the approved participant, under subsection 2.5;
  - d) the order is subject to all applicable requirements pursuant to the Electronic Trading Rules, including those pertaining to the risk management and supervisory controls, policies and procedures of the approved participant.
- 2.5 An approved participant must not provide to a client an electronic access to the Bourse, pursuant to paragraph B), unless the client has entered into a written agreement with the approved participant, which provides that:
- a) the client's trading activity shall comply with all applicable Bourse and regulatory requirements;
  - b) the client's trading activity shall comply with the product limits and credit or other financial limits specified by the approved participant;
  - c) the client shall take all reasonable steps to prevent unauthorized access to the technology that facilitates such electronic access;

- d) the client shall not permit any person to use such electronic access provided by the approved participant, other than those authorized by a client as defined in subparagraph 1 a) (ii) or, in the case of a client as defined in subparagraph 1) a) (i), other than those authorized and named by the client under the provision of the agreement referred to in subparagraph h);
  - e) the client shall fully cooperate with the approved participant in connection with any investigation or proceeding by the Bourse with respect to trading conducted pursuant to such electronic access, including, upon request by the approved participant, providing access to the Bourse to information that is necessary for the purposes of the investigation or proceeding;
  - f) the client shall immediately inform the approved participant, if it fails or expects not to meet the standards set by the approved participant;
  - g) when trading for the accounts of another person, under subsection 2.11, the client shall ensure that the orders of the other person are transmitted through the systems of the client and shall be subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client;
  - h) a client, as defined under subparagraph 1 a) (i), shall immediately provide to the approved participant, in writing, the names of all personnel acting on the client's behalf that it has authorized to enter an order, using the electronic access to the Bourse pursuant to paragraph B), as well as any changes thereof;
  - i) the approved participant shall have the authority, without prior notice, to reject any order, to vary or correct any order to comply with Bourse and regulatory requirements, to cancel any order entered on the Bourse and to discontinue accepting orders from the client.
- 2.6 An approved participant must not allow a client to have, or continue to have, an electronic access to the Bourse pursuant to paragraph B), unless it is satisfied that the client has reasonable knowledge of the applicable Bourse and regulatory requirements, and of the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.
- 2.7 An approved participant must ensure that a client receives any relevant amendments to the applicable Bourse and regulatory requirements, or changes or updates to the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.
- 2.8 Upon providing to a client an electronic access to the Bourse, pursuant to paragraph B), an approved participant must ensure the client is assigned a client identifier in the form and manner required by the Bourse.
- 2.9 An approved participant must ensure that an order entered by a client, using such an electronic access to the Bourse, includes the appropriate client identifier.
- 2.10 An approved participant must promptly inform the Bourse if a person ceases to be a client pursuant to paragraph B).
- 2.11 An approved participant must not provide an electronic access to the Bourse, pursuant to

paragraph B), to a client as defined in subparagraph 1 a) i) that is trading for the account of another person, unless the client is:

- a) registered or exempted from registration as an adviser under securities legislation; or
- b) a person that
  - i) carries on business in a foreign jurisdiction;
  - ii) under the laws of the foreign jurisdiction, may trade for the account of another person, using such an electronic access; and
  - iii) is regulated in the foreign jurisdiction by a signatory to the International Organization of Securities Commissions' Multilateral Memorandum of Understanding.

2.12 If a client referred to in section 2.11 is using such an electronic access to the Bourse to trade for the account of another person, it must ensure that the orders of the other person are initially transmitted through the systems of the client.

2.13 An approved participant must ensure that when a client is trading for the account of another person, using an electronic access to the Bourse pursuant to paragraph B), the orders of the other person are subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client.

### 3. Responsibility

An approved participant who provides an electronic access to the Bourse, pursuant to paragraph B), remains responsible for compliance with all applicable Bourse and regulatory requirements with respect to the entry and execution of orders from its clients.

### 4. Miscellaneous

4.1 An approved participant must immediately report to the Bourse, in writing, that it has terminated the electronic access of a client pursuant to paragraph B).

4.2 An approved participant must immediately report to the Bourse, in writing, if it is aware of or has reason to believe that a client has, or may have, breached a material provision of any standard established by the approved participant, or of the written agreement between the approved participant and the client, pursuant to section 2.

## **6367 Trading Hours**

(25.09.00, 29.10.01, 20.03.09)

Trading hours are determined by the Bourse.

There will not be any extended trading session on the expiry day of a contract month except in cases where the final settlement price of the contract is established after the close of the extended trading session.

### **6367A Curb Trading**

(06.01.03, abr. 20.03.09)

### **6368 Trading Stages**

(25.09.00, 24.09.01, 12.09.14, 00.00.00)

The following is a list of trading stages:

- Pre-opening

No-cancellation stage – Lasting for a time period as prescribed by the Bourse not exceeding the last 2 minutes of the Pre-opening stage, orders can not be cancelled or CFO'ed (Modification of an order). Orders can only be entered.

- Opening/ Closing
- Market Session (Continuous Trading)

Depending on the product, trading stages and no-cancellation stage may vary, as determined by the products specifications.

#### - Intra-session Auction Period

Intra-session auction periods will be determined and scheduled by the Bourse from time to time. The Bourse will determine and publish the list of derivative instruments subject to intra-session auctions, the number of intra-session auctions for each selected derivative instrument during one trading session, and the trading hours of such intra-session auctions including, without limitation, the time periods for:

- the pre-auction stage;
- the no-cancellation stage; and
- when applicable, the random opening of the intra-session auctions;

the whole customized for each derivative instrument and reassessed by the Bourse from time to time.

### **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:

#### 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.

**6369A Implied orders**  
(24.04.09)

The orders generated by the trading engine which can also be executed are defined hereinafter:

**Implied orders:**

Orders generated by the implied pricing algorithm using regular orders and registered in the order book by the trading engine.

**6369B Orders during Intra-session Auctions**  
(00.00.00.)

All types of regular orders described in article 6369 of the Rules can be executed during an intra-session auction period, to the extent any such order is available for the Listed Product subject to the intra-session auctions.

**6370 Order Duration**  
(25.09.00, 24.09.01)

Orders may be entered as:

- Day orders
- Session orders
- G.T.C. orders

(A Good until Cancel order, which is good until it is cancelled or until the end of expiry month)

- G.T.D. orders (good until a specified date)

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

**6371 Cancel of orders (CXL)**  
(25.09.00, 24.09.01, 00.00.00)

An order can be cancelled at any time during the day except if it has been filled, ~~or~~ if the derivative instrument is in the no-cancellation stage of the pre-opening or pre-closing stages, or if the derivative



instrument is in the no-cancellation stage of an intra-session auction.

**6372 Modification of orders (CFO)**  
(25.09.00, 24.09.01, 00.00.00)

An order can be CFO'ed at any time during the day except if it has been filled, ~~or~~ if the derivative instrument is in the no-cancellation stage of the pre-opening or pre-closing stages, or if the derivative instrument is in the no-cancellation stage of an intraday auction.

Furthermore:

- a) when the quantity of the order is decreased, it retains its priority in the system;
- b) when the quantity of the order is increased or its price modified, it is treated as a new order;
- c) upon the modification of any order's characteristic, a new ticket must be completed and time-stamped. If not, the original ticket will be time-stamped again;
- d) upon a quantity's reduction, the new ticket retains the initial priority. However, upon a quantity's increase, the new ticket acquires a new priority;
- e) for any other modification to the initial ticket, the new ticket is considered as a new order.

**6373 Time-Stamping of Limit Order**  
(25.09.00, 24.09.01)

The order ticket for a limit order must bear, in addition to that mention, a double time-stamping at the receipt and at the execution of the order.

**6374 Management of Priorities**  
(25.09.00, 24.09.01, 29.10.01)

The management of orders' priorities is made on the basis of the chronology of their receipt. The orders initiated for the firm account of approved participants must be made on an order ticket at the same conditions as those for client orders.

In all cases, each approved participant is responsible for insuring that, at the same price and time stamp, it gives priority to client orders over its own professional orders, unless the client has expressly waived the priority of his order and that such waiver is documented by the approved participant.

**6375 Order Priority**  
(25.09.00, 29.10.01, abr. 29.10.01)

**6375 Allocation of tradeable orders**  
(25.09.00, 24.09.01, 29.10.01, 22.01.16, 00.00.00)

- a) Pre-opening, ~~Pre-closing~~ and Intra-session Auctions

During the pre-opening stage and the pre-closing stages of the trading day, and during the pre-auction stage of an intra-session auction period, orders are entered but no trades are generated until the end of the stage. The electronic trading system will calculate the opening price, ~~the~~ closing price or the auction price, as the case may be, using the Calculated Theoretical-Opening price methodology

(CTO).

The ~~CTO price 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; and
- 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.

### **6376 Order Identification**

(25.09.00, 24.09.01, 29.10.01, 01.04.04)

Approved participants must ensure the proper identification of orders when entered into the trading system in order to ensure compliance with the provisions of article 6374 regarding management of priorities.

- a) “Order for the account of a customer” means an order for a security or a derivative instrument entered for the account of a customer of any approved participant or of a customer of a related firm of an approved participant, but does not include an order entered for an account in which an approved participant, a related firm of an approved participant, a person approved by the Bourse or a restricted trading permit holder has a direct or indirect interest, other than an interest in a commission charged;
- b) “Order for the account of a professional” means an order for a security or a derivative instrument for an account in which a director, officer, partner, employee or agent of an approved participant or of a related firm of the approved participant, a person approved by the Bourse or a restricted trading permit holder has a direct or indirect interest, other than an interest in a commission charged. The Bourse may designate any order as being an order for the account of a professional if, in its opinion, circumstances justify it;
- c) “Order for the account of the firm” means an order for a security or a derivative instrument for an account in which the approved participant or a related firm of the approved participant has a direct or indirect interest, other than an interest in a commission charged;
- d) “Order for an insider or significant shareholder” means an order for a security or a derivative instrument for the account of a client, a professional or a firm who is an insider and/or significant shareholder of the issuer of the underlying security which is the subject of the order. If such client, professional or firm is both an insider and a significant shareholder, the significant shareholder

designation must be used.

For the purposes of this article :

“insider” means a person who is an insider, pursuant to applicable securities legislation, of the issuer of the security underlying the security or the derivative instrument traded;

“significant shareholder” means any person holding separately, or jointly with other persons, more than 20 per cent of the outstanding voting securities of the issuer whose security is underlying the security or the derivative instrument traded.

“related firm” has the meaning given to that term in the definitions in article 1102 of the Rules of the Bourse.

### **6377 Keeping Records of Orders**

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 31.01.05)

- 1) With the exception of orders entered by a market maker to comply with obligations required by his role and responsibilities, a record must be kept by each approved participant of each order received for the purchase or sale of securities or derivative instruments traded on the Bourse.
- 2) The record of each order executed must indicate the person who received the order, the time the order was received, the time it was entered into the electronic trading system of the Bourse, the price at which it was executed, its time of execution, its classification pursuant to the provisions of article 6376, the approved participant from or to or through whom the security or derivative instrument traded on the Bourse was purchased or sold and, as the case may be, if the order was executed as a cross transaction, a prearranged transaction or a block trade pursuant to the provisions of article 6380. Such record must be retained for seven years.
- 3) No order can be executed on the electronic trading system of the Bourse until it has been identified as above by the approved participant who received the order.

All orders for securities or derivative instruments traded on the Bourse must be time-stamped and, if applicable, indicate any special instructions including the consent of the client to prenegotiation discussions.

- 4) The record of each order which remains unfilled must indicate the person who received the order, its time of receipt and its classification pursuant to the provisions of article 6376 and such record must be retained for seven years.
- 5) All telephone conversations related to trading in securities or derivative instruments listed on the Bourse must be recorded. The following conditions apply:
  - i) Recordings must be kept by approved participants for a period of one year.
  - ii) Authorization to consult the recordings of telephone conversations shall be granted in the case of an investigation by the Bourse, the Autorité des marchés financiers or by any other regulatory body with which the Bourse has concluded an information sharing agreement;
  - iii) In the case of litigation or in disciplinary matters, the recording may be filed as evidence.

- iv) Approved participants must advise their clients of the recording of telephone conversations and comply with the provisions of article 7452 of Rule 7.
- 6) Where an order ticket is completed, it must comply, for what concerns the information that must be entered on it, with the requirements of Section 11.2 of National Instrument 23-101 regarding Trading Rules.
- 7) Exceptionally, the Bourse may grant exemptions from all or any part of the requirements set in paragraphs 1) to 5) above.

**6378 Receipt of Orders**  
(25.09.00, 24.09.01, 29.10.01)

Any order received or initiated by an approved participant or a restricted permit holder must be time-stamped in accordance with articles 6373 and 6377 of the Rules.

**6379 Input of Orders**  
(25.09.00, 24.09.01, 29.10.01, 01.04.04)

Except as provided in paragraph b) of article 6375, the market orders and limit orders are entered into the trading system and presented to the market without delay in accordance with the chronology of their receipt. The other orders are presented to the market as soon as their time limit or triggering limit is reached.

Any order which is entered into the trading system must indicate if the order is for the account of a firm, of a client or of a professional, as these terms are defined in article 6376. In addition, if the order is for the account of an insider or of a significant shareholder, as these terms are defined in article 6376, it must be identified as such. When these conditions are fulfilled, the input in the system triggers the recording of the order. Should the final receiver fail to be identified directly in the system, a time-stamped recording in accordance with article 6377 of the Rules must be completed.

If a chronological ranking of receipt cannot be established between many orders, the client priority rules of article 6374 of the Rules apply.

**6380 Prenegotiation Discussions, Cross Transactions, Prearranged Transactions, Block Trades, Riskless Basis Cross Transactions and Block Trades Priced at a Basis to the Index Close**  
(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08, 29.01.10, 09.06.14, 21.01.16)

For the purpose of this article, the terms hereunder are defined as follows:

**1) Prenegotiation Discussions**

Prenegotiation discussions are considered having occurred when approved participants engage in negotiations with each other or with other approved participants and/or clients prior to entering orders which may result in a cross transaction, a prearranged transaction, a block trade, an exchange-for-physical or exchange-for-risk transaction (according to the provisions of article 6815 of this Rule), a substitution transaction (according to the provisions of article 6815A of this Rule) or a riskless basis cross transaction. Clients must consent to allow approved participants to engage in prenegotiation discussions with other approved participants and/or clients with respect to an order.

**2) Cross Transactions**

A cross transaction is considered having occurred when two orders of opposite sides originating from the same approved participant are intentionally executed against each other in whole or in part as a result of prenegotiation discussions.

### **3) Prearranged Transactions**

A prearranged transaction is considered having occurred when one or more approved participants engage in prenegotiation discussions in order to agree on the terms of a transaction before entering the orders in the electronic trading system of the Bourse.

Execution of cross transactions and prearranged transactions are permitted by the Bourse when:

- i) they are on eligible securities or derivative instruments;
- ii) the orders are for a volume equal to or greater than the minimum volume threshold established for that eligible security or derivative instrument;
- iii) the prescribed time delay between the input of an order and its opposite side order is respected;
- iv) the transactions are executed in accordance with the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.

The eligible securities or derivative instruments, the prescribed time delays and the minimum volume thresholds are determined by the Bourse and published in the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.

It is forbidden to use the hidden volume functionality of the electronic trading system of the Bourse to execute a cross transaction or a prearranged transaction.

### **4) Block Trades**

A block trade is considered having occurred when one or more approved participants and/or clients engage in prenegotiation discussions to arrange large size transactions away from the electronic trading system of the Bourse (as permitted by article 6005 of this Rule) at prices mutually agreed upon, report to the Bourse the terms of their agreement and the Bourse agrees to them.

An approved participant of the Bourse may execute a block trade for a volume equal to or greater than the applicable minimum volume threshold in a security or derivative instrument, other than an equity option or a share futures contract, designated by the Bourse pursuant to the following conditions and those of article 6380 6) of this Rule, if applicable:

- i) A block trade may be arranged in a designated security or derivative instrument only during the trading hours and business days authorized by the Bourse. Once a block trade has been arranged, an approved participant must submit details of the block trade to the Bourse as soon as practicable and in any event within the period of time prescribed by the Bourse.
- ii) A block trade may be arranged only in a security or derivative instrument that has been designated by the Bourse for that purpose. Such designations will be published by the Bourse, together with the minimum volume thresholds applying to those designated securities or derivative instruments. Approved participants are permitted to enter into block trades in any

strategy recognized by the Bourse.

- iii) Where a strategy involves the trading of two or more different securities or derivative instruments, the smaller of the minimum volume thresholds of the securities or derivative instruments comprised in the block trade will be applied to each of these securities or derivative instruments. Where the strategy involves the trading of two or more different contract months and/or strike prices of the same contract month, the minimum volume threshold will apply to each leg of the trade, except where specific provision has been made within the published minimum thresholds.
- iv) Approved participants may not aggregate separate orders in order to meet the minimum volume thresholds.
- v) The price at which a block trade is arranged must be “fair and reasonable” in light of (i) the size of such a block trade; (ii) currently traded prices and bid and ask prices in the same contract, at the relevant time; (iii) currently traded prices and bid and ask prices in other contract months for futures contracts or other option series for options contracts; (iv) currently traded prices and bid and ask prices in other relevant markets, including without limitation the underlying markets; (v) the volatility and liquidity of the relevant market; and (vi) general market conditions.
- vi) Block trades shall not set off special terms orders or otherwise affect orders in the regular market.
- vii) With the exception of futures contracts on the FTSE Emerging Markets Index, it is strictly prohibited for an approved participant, for both the buyer and the seller, to enter into a block trade to circumvent the contract month roll in the corresponding security or derivative instrument.

The eligible securities or derivative instruments and the minimum volume thresholds are determined by the Bourse and published in the Procedures for the Execution of Block Trades.

## **5) Riskless Basis Cross Transactions**

A riskless basis cross transaction occurs when an approved participant and a client engage in pre negotiation discussions to conclude a riskless basis cross transaction outside of the posted order book (as permitted by article 6005 of this Rule) at a pre-determined price. The futures contract price is comprised of an average price resulting from a preliminary transaction in the cash market plus a prenegotiated basis spread mutually agreed upon between the approved participant and the client.

A riskless basis cross transaction can be executed on the Bourse once the approved participant has acquired market exposure using cash instruments as prescribed in the procedures established by the Bourse.

In order to qualify as a riskless basis cross transaction, the following conditions must be respected:

- i) Riskless basis cross transactions must at all times be executed in accordance with such other procedures, terms and conditions that the Bourse may prescribe from time to time.
- ii) The futures contracts that are eligible to riskless basis cross transactions, and the last day and time for executing such transactions shall be determined by the Bourse.

- iii) The cash components acceptable for the purpose of a riskless basis cross transaction are those specified in the procedures set by the Bourse.
- iv) Each party to a riskless basis cross transaction must satisfy the Bourse, upon request, that the transaction is a bona fide transaction. To this effect, parties to such a transaction must maintain and must provide to the Bourse upon request complete records and documentary evidence relating to such transaction including all records relating to the purchase or sale of securities and futures contracts and to any transfer of positions made in connection with such transaction.
- v) It is prohibited for any party to a riskless basis cross transaction to effect a transaction which is contrary to the requirements and practices prescribed by the rules, policies and procedures of the Bourse or to effect such a transaction for the sole purpose of reporting, registering or recording a price that is not a bona fide price or of making a transaction which is a "wash trade", an accommodation trade or a fictitious sale.
- vi) A riskless basis cross transaction may be made at such prices that are mutually agreed upon by the two parties to this transaction. However, the price at which the futures contract leg of the transaction is arranged must be fair and reasonable in light of factors such as, but not limited to, the size of the transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market as well as the general market conditions.
- vii) Each riskless basis cross transaction must be reported to the Bourse in accordance with the procedures set by the Bourse. Such report must be in the form prescribed by the Bourse and must contain all the information required on such prescribed form.
- viii) Each riskless basis cross transaction must be immediately disseminated by the Bourse once it has validated it.
- ix) It is strictly prohibited for any party, for both the buyer and the seller, to enter into a riskless basis cross trade to circumvent the contract month roll in the corresponding security or derivative instrument.

## **6) Block Trades Priced at a Basis to the Index Close (BICs)**

Block trade priced at a basis to the index close (BICs) are block trade transactions on a security or derivative instrument designated by the Bourse that are priced in reference to the closing price of the relevant underlying index and the basis as determined during prenegotiation discussions.

The futures price assigned to a BIC is based on the applicable closing price of the relevant index adjusted by a valid price increment ("basis").

The basis and final price of the BIC must be fair and reasonable taking into consideration, but without limitation to the consideration of, the following factors: financing rates, expected dividend income, time remaining until the index futures contract expiration, and any factors set forth in article 6380 4) v) of this Rule, as applicable.

A BIC is considered having occurred when one or more approved participants and/or clients engage in prenegotiation discussions to arrange large size transactions, in accordance with the minimum volume thresholds determined by the Bourse, away from the electronic trading system of the Bourse (as set forth by article 6005 of this Rule) at a basis that has been mutually agreed upon, report to the

Bourse the terms of their agreement and the Bourse agrees to them.

While the basis to a prospective index price or the applicable closing price of the relevant index is established during prenegotiation discussions, the outright price for the transaction will only be established once the applicable closing price of the relevant underlying index has been established.

On all trading days up to but excluding the last trading day of an expiring contract month, an approved participant of the Bourse may execute a BIC for a volume equal to or greater than the applicable minimum volume threshold in a security or derivative instrument designated by the Bourse pursuant to the conditions set forth in article 6380 4) of this Rule.

**6381 Cancellation or Adjustment of Trades**

(25.09.00, 24.09.01, 29.10.01, 24.04.09)

- a) A trade on the electronic trading system resulting from an input error can be cancelled by the parties agreeing to it within 15 minutes following its execution. The error and the request to cancel the resulting transaction must be verbally communicated (by telephone) by the approved participant to a Market Supervisor of the Bourse.
- b) The Bourse may at any time cancel or adjust a trade if it is judged to be detrimental to the normal operation or quality of the market or in any circumstance judged appropriate by a Market Supervisor.

The decisions are final and cannot be appealed.

**6382 Warning Message**

(25.09.00, 24.09.01, 29.10.01, abr. 24.04.09)

**6383 Acceptable Market Price**

(25.09.00, 24.09.01, 29.10.01, 24.04.09)

Before the cancellation of a trade, the Market Supervisor of the Bourse notes the spread between the price execution of the trade that is requested to be cancelled and the acceptable market price and determines the estimated price at which the trade should have been done in normal execution conditions.

The acceptable market price is determined by the Market Supervisor of the Bourse on the basis of available market information at the time the trade, requested to be cancelled was executed.

**6384 Decision by the Market Supervisor of the Bourse**

(25.09.00, 24.09.01, 29.10.01, 24.04.09)

A trade will not be cancelled:

- if the error and the request to cancel the resulting trade have been communicated to the Bourse by the approved participant outside the prescribed delay;
- if the spread between the execution price of the trade to be cancelled and the acceptable market price is inferior to the spread determined by a Market Supervisor of the Bourse;
- if a Market Supervisor of the Bourse considers that he does not have sufficient information to determine the acceptable market price;



- if the information communicated to the Bourse by the approved participant is incomplete or insufficient.

The Market Supervisor's decision is final and cannot be appealed.

**6385 Delays of Decision and Notifications**  
(25.09.00, 24.09.01, 29.10.01, 24.04.09)

The Market Supervisor of the Bourse will decide to cancel or refuse to cancel a transaction and will inform each party to the trade of this decision. This will be done within thirty minutes following the communication of the error and of the cancellation request to the Bourse by the approved participant within the same delay.

**6386 Unacceptable Practices**  
(25.09.00, 24.09.01, abr. 31.01.05)

**6387 Malfunction of the Trading System**  
(25.09.00, 24.09.01, 29.10.01)

Should the electronic trading system malfunction, a Market Supervisor of the Bourse can interrupt access to the system.

The orders recorded before the malfunction can be withdrawn from the system by the approved participant or the restricted permit holder by preparing cancellation instructions for the orders. Upon the system functioning again, there will be a pre-opening session where the cancellation instructions for the orders will be executed.

**6388 Daily Price Limits**  
(25.09.00, 24.09.01, 29.10.01)

The Bourse establishes for each derivative instrument a daily price limit, based on a percentage, with respect to the previous day's settlement price and there shall be no trading above or below that limit. The daily price limit percentage is established on a monthly basis in collaboration with the clearing corporation.

**6389 Market Supervisor**  
(25.09.00, 24.09.01, 29.10.01)

A Market Supervisor is an employee of the Bourse who monitors the day-to-day trading on the trading system.

**6389A Levy of a Fine**  
(24.09.01)

Any official of the Bourse who has been informed of, or has witnessed a trading infraction or unethical conduct has the authority to investigate the matter and levy a fine not exceeding \$5,000. Such a decision must be ratified by at least two senior officers of the Bourse before being communicated to the person at fault. Such a decision can be appealed to the Special Committee – Regulatory Division.

**6390 Market Official**  
(25.09.00, 24.09.01, abr. 29.10.01)

**6390 Daily Settlement Price or closing quotation**  
(25.09.00, 24.09.01, 29.10.01)

The daily settlement price or the closing quotation are determined according to the procedures established by the Bourse for each derivative instrument.

**6391 Entry of Orders in the Electronic Trading System**  
(25.09.00, 24.09.01, 29.10.01, 00.00.00)

- a) The electronic trading system shall contain all orders to buy and to sell.
- b) Orders may be entered into the electronic trading system during pre-opening or during the pre-auction stage of an intra-session auction period.
- c) Orders ~~can not~~cannot be modified or cancelled during the n~~No-cancellation~~ation stage before the opening or closing, or during the no-cancellation stage of an intra-session auction period.
- d) All orders shall be considered to be Day orders, unless otherwise stipulated at the time of entry.

**6392 Opening Time**  
(25.09.00, 24.09.01, 29.10.01)

- a) In the case where the underlying interest has not opened in a reasonable time, a Market Supervisor may postpone the opening of a derivative instrument.
- b) Opening time for a spread or strip should not be earlier than the underlying product.

**6393 Trading Price Limits**  
(25.09.00, 24.09.01, 29.10.01)

In order to minimize errors of the approved participant during order entry in the electronic trading system, trading price limits are in place for each instrument. This will protect the approved participant from entering a wrong price, which could move the market dramatically.

The approved participant who has placed an order which is not in the trading price limits, will receive a specific message that his order has been rejected.

The trading price limits will be set at the start of trading based on the previous day's settlement price (plus or minus). These limits will be adjusted by the Market Supervisor of the Bourse during the trading day, based on the movement of the market. The Bourse will be responsible to make sure the limits will not affect trading in any way. The new limits will be broadcasted to the market. Once the trading price limit has reached the daily price limits, the daily price limits are effective.

The Bourse will advise the approved participants of any change to the spread of the trading price limits.

**6393A Other Trading Price Limits**  
(18.09.09)

A range of trading price limits (up and down) will also be established in trading sessions during which the underlying exchange-traded products are not open for trading. Such a trading range will be

established by the Bourse based on the previous day's settlement price at the beginning of that particular trading session and will not be readjusted intra-session.

**6394 Execution of orders in the Electronic Trading System**

(25.09.00, 29.10.01, abr.29.10.01)

**6394 Introduction and Deletion of Classes and Series of Options**

(29.10.01)

**INTRODUCTION**

- a) Before submitting a formal application to the Clearing Corporation for the introduction of a new class of options, the Bourse shall be satisfied that the liquidity of the options market on the Bourse is not unduly reduced by reason of such addition.
- b) When introducing a new class of options, the Bourse shall determine:
  - i) the symbol;
  - ii) the date that trading shall begin.

**DELETION**

- a) Whenever the Bourse determines that an underlying interest previously approved for options transactions on the Bourse does not meet the requirements for continued approval or for any other reason should no longer be approved, it may decide not to open for trading any additional series of the class covering the underlying interest and to prohibit any opening purchase transactions in already existing series of that class.
- b) The Bourse can delete an equity option if the issuer has failed to make timely reports as required by the regulation where the underlying interest is traded.
- c) Such action shall not be taken without regard to the necessity of maintaining a fair and orderly market and to the protection of purchasers and writers of option contracts.
- d) The Bourse may delete specific series of any class of options when the series have no open interest.

**6395 Market makers - Options**

(24.09.01, 29.10.01)

In order to enhance the liquidity of the market and facilitate the handling of orders, a listed option class can be assigned to one or several approved participants who have agreed to undertake the market marker's responsibilities.

A market maker can be assigned one or more classes of options to which he must provide liquidity. In addition to the foregoing, each market maker shall comply with the following obligations required by his role and responsibilities:

- A) Oversight and selection of market makers shall be the responsibility of the Bourse. Factors to be considered for the selection of market makers shall include the following: adequacy of capital, experience with trading of a similar derivative instrument, willingness to promote the Bourse as a

market place, operational capacity, support personnel, history of compliance with the Rules of the Bourse and any other factor which the Bourse deems relevant.

- B) By written application in the form prescribed by the Bourse, an approved participant may request a market maker assignment in one or more listed options classes. An application for market maker assignment by an approved participant must include the name of its designated representative. The Bourse may also request any one or more conditions on the nomination, in respect of any representations made in the application process, including but not limited to, capital, operations or personnel.
- C) The market maker is obligated to promptly inform the Bourse of any material change in its financial or operational condition or in its personnel. A market maker appointment can not be transferred without the prior approval of the Bourse. The market maker must serve until he is relieved from his obligations by the Bourse.
- D) The Bourse may, at its discretion, relieve a market maker from his appointment:
  - i) if, upon review, the Bourse determines that a market maker has not performed satisfactorily the conditions of his appointment;
  - ii) if a market maker incurs a material financial, operational or personnel change which could negatively impact his ability to satisfactorily perform his duties;
  - iii) if for any reason the market maker should no longer be eligible for appointment, should resign his appointment or fail to perform his duties.

If a market maker has been relieved of his appointment or the appointment otherwise becomes vacant, the Bourse has discretion to appoint an interim market maker pending the conclusion of a new market maker selection process. The appointment as interim market maker is not a prejudgement of the outcome of the new market maker selection process.

- E) A market maker shall continuously maintain for his account on every series of his assigned options classes a two-sided market, consisting of a current bid and ask, with their associated size commitments.

He must effect trades which have a high degree of correlation with the overall pattern of trading for each of his assigned options classes.

- F) With respect to each class of options for which he holds an assignment, a market maker has a continuous obligation to engage, to a reasonable degree under prevailing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of, and demand for, a particular options series, or a temporary distortion of the price relationships between options contracts of the same class.

Without limiting the foregoing, a market maker is expected to perform the following activities in the course of maintaining a fair and orderly market:

- i) to compete with other market makers to improve markets in series of options classes in which the market maker has an assignment;

- ii) to make markets which, upon stable market conditions, will be honoured to a reasonable number of contracts in series of options classes in which the market maker has an assignment;
- iii) to price options fairly by bidding and/or offering so as to create differences of no more than his spread commitments in series of options classes in which the market maker has an assignment.

**6397 Organization of the Market - Options**  
(24.09.01, abr. 29.10.01)

**6399 Market-Makers - Options**  
(24.09.01, abr. 29.10.01)

**6400 Bulk Quote Messages**  
(03.12.12)

Bulk quote messages are individual messages that contain multiple orders.

Bulk quote messages are available to approved participants who are registered, or whose clients are registered, in eligible programs as established by the Bourse.

Eligibility criteria for registration in these programs, and the products that qualify for bulk quote messages, will be defined by the Bourse.

**6401 Cancellation of Bulk Quote Orders**  
(03.12.12)

Orders submitted to the Bourse via a bulk quote message may be cancelled by the electronic trading system of the Bourse should the parameters of the Bulk Quote Management functionality be triggered.

The Bulk Quote Management parameters configured by the Bourse will take precedence, unless the approved participant configures more restrictive parameters for the Bulk Quote Management functionality for their own bulk quote messages.

The following parameters can be configured by approved participants through the Bulk Quote Management functionality:

- a) Maximum Number of Trades / Minimum traded volume
- b) Maximum traded Volume
- c) Delta maximum Volume
- d) Maximum traded Value
- e) Delta maximum Value
- f) Time Interval