

CIRCULAR 089-18

June 6, 2018

SELF-CERTIFICATION

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. TO HARMONIZE AND CLARIFY THE RULES PERTAINING TO COMMITTED ORDERS AND PREARRANGED TRANSACTIONS

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to article 6380 of the Rules of the Bourse in order to allow the execution of cross and prearranged transactions on strategy instruments executed on futures contracts through the use of the committed order functionality where such transactions are allowed to be performed with no prescribed time delay, and to clarify the rules pertaining to the minimum volume thresholds applicable to the execution of prearranged transactions and committed orders on strategy instruments. These amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (CQLR, Chapter I-14.01).

These amendments, as attached, will become effective on **June 29, 2018**, after market close. Please note that the revised articles will also be available on the Bourse’s website (www.m-x.ca).

The amendments described in the present circular were published for public comment by the Bourse on February 12, 2018 (see [Circular 025-18](#)).

For additional information, please contact Alexandre Normandeau, Legal Counsel, at 514-787-6623 or by email at alexandre.normandeau@tmx.com.

Alexandre Normandeau
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Bourse de Montréal Inc.

RULE SIX

TRADING

A. GENERAL FRAMEWORK AND PROCEDURES

[...]

Section 6365- 6401

Electronic Trading of Derivatives Instruments Traded on the Bourse

[...]

6380 Transactions Required on Bourse Facilities

(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08, 29.01.10, 09.06.14, 21.01.16, 17.01.18, 00.00.00)

All trading in Listed Products must occur on or through the electronic trading system or in accordance with the rules of the Bourse.

6380a. Prearranged Transactions Prohibited.

No Person shall prearrange or execute noncompetitively any transaction on or through the electronic trading system of the Bourse, except as permitted by, and in accordance with article 6380b.

6380b. Exceptions to Prohibition on Prearranged Transactions.

The prohibition in article 6380a shall not apply to prearranged transactions pursuant to article 6380c; Block Trades pursuant to article 6380d; Riskless Basis Cross Trades pursuant to article 6380e; Exchange For Related Positions pursuant to articles 6815; and transfers of open positions under article 6816; *provided however*, no transaction under any of the exceptions included in this article may be executed using a hidden volume functionality.

6380c. Prearranged transactions.

1) **In general.**

For the purpose of this article, “communication” means any communication for the purpose of discerning interest in the execution of a transaction prior to the exposure of the order to the market. Any communication that relates to the size, side of market or price of an order, or a potentially forthcoming order, constitutes a communication to prearrange a transaction.

The parties to a transaction may engage in communications to prearrange a transaction on the electronic trading system in an eligible derivative in the minimum amount specified where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the transaction, in accordance with the following conditions:

- i) A customer must consent to the Approved Participant engaging in prearranging communications on the customer’s behalf. The consent of the client, in whatever form, must be communicated to the Bourse upon request;

- ii) After the first order for the prearranged transaction is entered into the electronic trading system the parties may not enter the second order for the prearranged transaction until the following specified time period has elapsed as follows:

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Thirty-Day Overnight "Repo" Rate Futures Contracts (ONX):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Overnight Index Swap Futures Contracts (OIS):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Government of Canada Bond Futures		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO₂e) Units:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on Canadian Crude Oil		
All expiry months and strategies	5 seconds	No threshold
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):		
All expiry months and strategies	0 seconds	≥ 250 contracts

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
All expiry months and strategies	5 seconds	< 250 contracts
Equity, ETF and Currency Options:		
All expiry months	0 seconds	≥ 100 contracts
All expiry months	5 seconds	< 100 contracts
All UDS Strategies	5 seconds	No Threshold
Index Options:		
All expiry months	0 seconds	≥ 50 contracts
All expiry months	5 seconds	< 50 contracts
All UDS Strategies	5 seconds	No Threshold
Canadian Share Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures and Options on Futures Inter-Group Strategies		
All strategies	5 seconds	No threshold

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

- iii) The party that initiates communication regarding a prearranged transaction shall have his or her order entered into the electronic trading system first, unless the parties as part of their negotiation agree otherwise. The consent of the client, in whatever form, must be communicated to the Bourse upon request; provided however, that in a prearranged transaction between an Approved Participant and a customer for an equity, ETF or index option, the customer's order shall always be entered into the electronic trading system first, regardless of which party initiated the communication.
 - iv) Limit orders resting in the electronic trading system at the time that the first order of the prearranged transaction is entered at or better than the price of the first order shall be matched with the first order entered. Any residual, unfilled amount of the first order may be matched against the second order of the prearranged transaction when the second order is entered.
 - iii) Parties may not aggregate unrelated orders to meet the minimum threshold for a prearranged transaction.
 - iv) The parties to the prearranging communications shall not disclose to any other party details of the negotiation or otherwise enter an order to take advantage of the negotiation during such communications except as permitted in this article.
- 2) **Committed Orders.** Committed orders may not be used to execute any transaction under article 6380c or article 6380f having a prescribed time delay, ~~or to execute strategies longer than zero seconds~~, and may be used for such transactions only for the following products subject to the minimum quantity-volume threshold:

ELIGIBLE DERIVATIVES FOR COMMITTED ORDERS	MINIMUM VOLUME THRESHOLD
<u>All expiry months and strategies</u>	
Futures Contracts on S&P/TSX <u>and FTSE Emerging Markets</u> Indices	100 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts	250 contracts
Equity, ETF and Currency Options	100 contracts
Index Options	50 contracts
Canadian Share Futures Contracts	100 contracts
<u>All expiry months and excluding UDS strategies</u>	
Equity, ETF and Currency Options	100 contracts
Index Options	50 contracts

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

[...]

6380f. Trading Against Customer Orders (Cross-Trades).

An Approved Participant may not knowingly, directly or indirectly, take the opposite side of a customer order for the Approved Participant's own account, an account in which the Approved Participant has a direct or indirect financial interest or an account over which the Approved Participant has discretionary trading authority, unless:

- a) the customer order has first been entered on the electronic trading system and exposed to the market for a minimum period of 5 seconds for futures and options; or
- b) the transaction is otherwise, and explicitly permitted by, and carried out in accordance with, a rule of the Bourse; including, but not limited to prearranged transactions pursuant to article 6380c.

[...]

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6380a. Prearranged Transactions Prohibited.

No Person shall prearrange or execute noncompetitively any transaction on or through the electronic trading system of the Bourse, except as permitted by, and in accordance with article 6380b.

6380b. Exceptions to Prohibition on Prearranged Transactions.

The prohibition in article 6380a shall not apply to prearranged transactions pursuant to article 6380c; Block Trades pursuant to article 6380d; Riskless Basis Cross Trades pursuant to article 6380e; Exchange For Related Positions pursuant to articles 6815; and transfers of open positions under article 6816; *provided however*, no transaction under any of the exceptions included in this article may be executed using a hidden volume functionality.

6380c. Prearranged transactions.

3) **In general.**

For the purpose of this article, “communication” means any communication for the purpose of discerning interest in the execution of a transaction prior to the exposure of the order to the market. Any communication that relates to the size, side of market or price of an order, or a potentially forthcoming order, constitutes a communication to prearrange a transaction.

The parties to a transaction may engage in communications to prearrange a transaction on the electronic trading system in an eligible derivative in the minimum amount specified where one party wishes to be assured that there will be a counterparty willing to take the opposite side of the transaction, in accordance with the following conditions:

- ii) A customer must consent to the Approved Participant engaging in prearranging communications on the customer’s behalf. The consent of the client, in whatever form, must be communicated to the Bourse upon request;
- ii) After the first order for the prearranged transaction is entered into the electronic trading system the parties may not enter the second order for the prearranged transaction until the following specified time period has elapsed as follows:

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
Three-Month Canadian Bankers’ Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
Thirty-Day Overnight “Repo” Rate Futures Contracts (ONX):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Overnight Index Swap Futures Contracts (OIS):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Government of Canada Bond Futures		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO2e) Units:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on Canadian Crude Oil		
All expiry months and strategies	5 seconds	No threshold
Options on Three-Month Canadian Bankers’ Acceptance Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):		
All expiry months and strategies	0 seconds	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Equity, ETF and Currency Options:		
All expiry months	0 seconds	≥ 100 contracts
All expiry months	5 seconds	< 100 contracts
All UDS Strategies	5 seconds	No Threshold
Index Options:		
All expiry months	0 seconds	≥ 50 contracts
All expiry months	5 seconds	< 50 contracts
All UDS Strategies	5 seconds	No Threshold

ELIGIBLE DERIVATIVES	PRESCRIBED TIME PERIOD	MINIMUM VOLUME THRESHOLD
Canadian Share Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures and Options on Futures Inter-Group Strategies		
All strategies	5 seconds	No threshold

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

- iv) The party that initiates communication regarding a prearranged transaction shall have his or her order entered into the electronic trading system first, unless the parties as part of their negotiation agree otherwise. The consent of the client, in whatever form, must be communicated to the Bourse upon request; provided however, that in a prearranged transaction between an Approved Participant and a customer for an equity, ETF or index option, the customer's order shall always be entered into the electronic trading system first, regardless of which party initiated the communication.
 - iv) Limit orders resting in the electronic trading system at the time that the first order of the prearranged transaction is entered at or better than the price of the first order shall be matched with the first order entered. Any residual, unfilled amount of the first order may be matched against the second order of the prearranged transaction when the second order is entered.
 - v) Parties may not aggregate unrelated orders to meet the minimum threshold for a prearranged transaction.
 - vi) The parties to the prearranging communications shall not disclose to any other party details of the negotiation or otherwise enter an order to take advantage of the negotiation during such communications except as permitted in this article.
- 4) **Committed Orders.** Committed orders may not be used to execute any transaction under article 6380c or article 6380f having a prescribed time delay longer than zero seconds, and may be used for such transactions only for the following products subject to the minimum volume threshold:

ELIGIBLE DERIVATIVES FOR COMMITTED ORDERS	MINIMUM VOLUME THRESHOLD
All expiry months and strategies	
Futures Contracts on S&P/TSX and FTSE Emerging Markets Indices	100 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts	250 contracts
Canadian Share Futures Contracts	100 contracts
All expiry months and excluding UDS strategies	

Equity, ETF and Currency Options	100 contracts
Index Options	50 contracts

The minimum volume threshold described in the table above, when applicable to a strategy, refers to the negotiated volume of a given strategy instrument and not to the sum of its legs.

[...]

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An Approved Participant may not knowingly, directly or indirectly, take the opposite side of a customer order for the Approved Participant's own account, an account in which the Approved Participant has a direct or indirect financial interest or an account over which the Approved Participant has discretionary trading authority, unless:

- a) the customer order has first been entered on the electronic trading system and exposed to the market for a minimum period of 5 seconds for futures and options;
or
- b) the transaction is otherwise, and explicitly permitted by, and carried out in accordance with, a rule of the Bourse; including, but not limited to prearranged transactions pursuant to article 6380c.

[...]