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CIRCULAR 093-17
June 20, 2017

REQUEST FOR COMMENTS

AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES OF BOURSE DE MONTREAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved amendments to the *Procedures for the Cancellation or Adjustment of Trades* to change the "increments" used by Market Supervisors in the Market Operations Department to determine whether an equity, ETF, index or currency option transaction should be adjusted or cancelled. The increments currently in force are no longer consistent with market conditions or with other marketplaces on which Canadian options are interlisted. Consequently, the Bourse would like to adopt more appropriate increments.

Comments on the proposed amendments must be submitted on or before **July 21, 2017**. Please submit your comments to:

M[e] 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

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

M[e] Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
E-mail: 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 by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES OF BOURSE DE MONTREAL INC.

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I. SUMMARY

The Bourse proposes to amend the *Procedures for the Cancellation or Adjustment of Trades* (the "**Procedure**") to change the "increments" used by Market Supervisors in the Market Operations Department ("**MOD**") to determine whether a transaction should be adjusted (and consequently what the adjusted options prices will be) or cancelled for Equity, ETF, Index and Currency options ("**Options**"). The increments currently in force are no longer consistent with market conditions or with other marketplaces on which Canadian options are interlisted. Consequently, the Bourse would like to amend the procedure to adopt more appropriate increments.

No-Cancel Increments (NCI): amounts set with respect to each derivatives instrument in the Procedure and used to establish the No-Cancel Range and determine whether a derivative instrument is trading at a price that is too far from its theoretical or fair value.

No-Cancel Range (NCR): is defined as the price interval within which a trade shall not be cancelled outright or adjusted by the MOD, established by adding and deducting the NCI from the theoretical or fair market value of a given derivatives instrument.

II. ANALYSIS

a. Background

The procedure described above is used by the Market Supervisors to cancel or adjust trades that are executed on the Bourse's electronic trading platform and are a result of order entry (fat-fingers) errors, or are deemed detrimental to the normal operation or quality of the market. For the purpose of this analysis and as defined in the Procedure, transactions executed at prices outside the No-Cancel Range ("NCR") are deemed detrimental to the normal operation or quality of the market.

Article 6389 of the Rules of the Bourse defines a Market Supervisor as "an employee of the Bourse who monitors the day-to-day trading on the trading system". The Market Supervisors responsibility for monitoring trading includes maintaining fair and equitable markets. Market Supervisors monitor trading during all trading sessions and phases of the market, and are best-placed to determine which transactions may be deemed detrimental to the normal operation or quality of the market. They are also best positioned to exercise judgment and make decisions during urgent and fast moving situations, such as those that may require the adjustment or cancellation of trades.

In the Bourse's current trading environment, transactions that are executed as a result of order entry errors, or are deemed detrimental to the normal operations or quality of the market, can be adjusted or cancelled outright depending on the situation, in accordance with the Bourse's Rules, including the Procedure. In order to cancel or adjust a given transaction, a Market Supervisor must detect the transaction. This is accomplished in one of two ways:

1. The Market Supervisor detects the transaction during his or her monitoring duties with respect to the market.
2. The Market Supervisor is contacted by a market participant to inform him or her that a transaction has been executed at a price that seems not consistent with fair and orderly markets.

Once the transactions are detected, Market Supervisors will invoke the Procedure to decide whether the transaction should be cancelled outright or adjusted at a price such that the transaction is more closely representative of actual market conditions. In the case of the latter, the goal of adjusting a transaction is to limit the loss incurred by the counterparty who entered the erroneous order, and to ensure that the counterparty to the error transaction providing liquidity, does not unduly profit from the error transaction.

In determining whether a transaction will be cancelled or adjusted, Market Supervisors will use the No Cancel Increments ("NCI") in the table, in paragraph 5.3 of the Procedure to derive NCRs. The increments to be used are a function of the execution price of the derivative instrument. The NCIs in their current form are illustrated in table 1

Table 1: No Cancel Increments

Options Price Range	No Cancel Increments
$0.01 - $5.00	0.10 $
$5.01 - $10.00	0.25 $
$10.01 -$20.00	0.50 $
$20 +	0.75 $

As shown in the table above, in its current form, there are 4 option price ranges with their corresponding NCIs. The Options Price Ranges and NCIs illustrated above were first introduced in 2001, when the Bourse introduced electronic trading and designated market makers were not providing quotes on every options series. Additionally, the Options Price Ranges and NCIs reflected the market conditions of the time. Nowdays, the Bourse has 5 designated market makers quoting two sided markets on most option class listed. The result has been substantial growth in volume and open interest. This has translated into increased market depth and liquidity while bid ask spreads have decreased significantly. As a result, during the course of normal operations and after feedback from market participants, the Bourse concluded that:

- The price ranges are too wide for their respective NCIs.
- The NCIs are too small.
- The $20 + price range is too broad.
- The price ranges and NCIs, and therefore the NCRs, applied by the Bourse are inconsistent with other trading venues where options on Canadian shares are listed.

b. Description and Analysis of Market Impacts

- *The price ranges are too wide for their respective NCIs*

Analyzing the first price range ($0.01- $5.00) and its respective NCI of $0.10 it is clear is that as we move up higher into the price range, the resulting adjustment will be immaterial and may be disruptive to the market.

Example:	Instrument	ABX Call Option $26.00 June 16, 2017
	Fair Market Value (« FMV »)	$4.00

A market participant inadvertently enters an order into the system that results in a transaction on the option instrument at $3.80. Since the calculated FMV is $4.00 market supervisors invoke the procedure to adjust the transaction as the traded price ($3.80) is outside the No Cancel Range $3.90-$4.10 ($4.00 - $0.10). As a result of this, Market Supervisors will contact the counterparties to the transaction and advise them that the trade price will be adjusted to $3.90 in accordance with the Procedure. The $0.10 adjustment as, a percentage of the FMV price of the option, represents a 2.5% ($0.10/$4.00) improvement. The same adjustment on an option with a $1.00 FMV will result in a 10% ($0.10/$1.00) improvement, and the same adjustment on an option with a $0.15 FMV will result in a 66.6% ($0.10/$0.15) improvement. As is evident from these examples, the adjusted prices can be immaterial towards the upper limit of the price range, while the same adjustment can be more significant towards the lower limit of the price range. Furthermore, the intervention required to adjust the transactions makes trading very disruptive towards the upper limit if the price range.

- *The NCIs are too small*

In addition to the price ranges being too wide, the NCIs have become too small especially compared with NCIs on other options exchanges. In the example above, an option with a price of $4.00 was adjusted by $0.10. The value of the adjustment expressed as a percentage of the option price was 2.5%. Furthermore, this is consistent as the option prices increases as a result of the current parameters. As an example, looking at the table above, a $10 option would be adjusted $0.25 represents 2.5% of the options price, as does $0.50 adjustment on a $20 option. This results in the adjustment of transaction for immaterial amounts and makes trading somewhat disruptive for the Bourse's market participants, given the purpose of the NCR should be to cancel or adjust, as the case may be, transactions resulting from entry errors, or which are deemed detrimental to the normal operations or quality of the market.

- *The $20+ price range is too broad*

In addition to the $0.75 NCI for the $20+ price range being too small as described above, the price range in and of itself is too broad if we consider that depending on the Moneyness and Expiry of an option contract, premiums can now exceed $100. Therefore, in the case of $100 option price, Market supervisors would be called into action to adjust a price of an option that trades below $99.25 ($100-$0.75) or above $100.75 ($100 + $0.75). The development of the market has created the need for a greater granularity of the price ranges and respective NCIs for prices above $20.

c. Comparative Analysis

The table below illustrates the options price ranges and respective NCIs at other option exchanges where Canadian options are listed. As it appears from the table, the options price ranges are not as wide on the lower end of the price range specifically the $0.01 and $5.00 ranges, and the NCIs are comparatively larger. In the $5.00 to $20.00 range there are an equal number (2) of prices ranges, with the difference being that the NCIs are larger. In the $20.00+ price range other exchanges have 3 options price ranges and larger NCIs that are not immaterial given the options price.

Table 2: Options Price Ranges and NCIs for Other Options Exchanges

EXCHANGE	Options Price Range	No Cancel Increments
NASDAQ[1] CBOE[2] BOX[3]	Below $2.00	$0.25
	Above $2.00 to $5.00	$0.40
	Above $5.00 to 10.00$	$0.50
	Above $10.00 to $20.00	$0.80
	Above $20.00 to $50.00	$1.00
	Above $50.00 to $100.00	$1.50
	Above $100.00	$2.00

d. Proposed Amendments

From the analysis above it has been demonstrated that the NCIs are no longer relevant given the Options market evolution whereby there is greater liquidity and depth to the market as a result of designated market-makers quoting 2 sided markets on all listed option series. Furthermore, the trade adjustments that arise from the options price ranges and NCIs have made trading disruptive for participants, as trades must be cancelled and re-adjusted to prices

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[1] Nasdaq Rule Book: Rule 720. Nullification and Adjustment of Options Transactions including Obvious Errors
http://www.ise.com/assets/gemini/documents/OptionsExchange/legal/rules/ISE_Gemini_Rules.pdf

[2] CBOE Rulebook Rule 6.25. Nullification and Adjustment of Options Transactions including Obvious Errors
http://wallstreet.cch.com/CBOETools/PlatformViewer.asp?searched=1&selectednode=chp_1_1_6_2_10&CiRestriction=Trade+AND+price+AND+adjustment&manual=%2FCBOE%2FRules%2Fcboe-rules%2F

[3] Boston Options Exchange Rule Book. Rule 7170. Nullification and Adjustment of Options Transactions including Obvious Errors http://rules.boxoptions.com/browse/966253367b43100084bf001b7840a5b2020

that are in line with the guidelines in the Procedure, and in most case resulting in adjustments that are immaterial. Finally, aligning the options price ranges and NCIs with those on other exchanges when options on Canadian Shares are issued will ensure that trade adjustments and cancellations are handled in a uniform manner regardless of where a market participant is trading the instrument.

Therefore, the Bourse proposes to adopt the same parameters for its own market as those applicable at other option exchanges where Canadian options are listed. The benefits of the options price ranges and NCIs below is that theoretically there should be less adjusted or cancelled trades which will make trading less disruptive. Furthermore, a participant trading on the Bourse will have his transaction adjusted or cancelled if it deviates from its theoretical price by the same amount.

III. AMENDMENT PROCESS

The amendment process was triggered by the Bourse's desire to revise the option price ranges and NCIs set forth in the Procedure in light of the evolution of market conditions since their adoption in 2001 and by feedback from the Bourse's participants.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

Given the Procedure is applied by MOD and trades are manually adjusted or cancelled, as the case may be, the proposed amendments have no impact on the Bourse's or its participants' technological systems.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS

The objective of the amendments is to reduce the amount of transactions that must be either adjusted or cancelled often times for very immaterial amounts, and allow the Bourse Procedures to be aligned with other option trading venues so that a transaction on the Bourse gets treated the same way as on another exchange.

VI. PUBLIC INTEREST

In light of the rationale underpinning the proposed changes, the Bourse is of the opinion that they are not contrary to public interest.

VII. EFFICIENCY

The proposed amendments will enhance market efficiency by harmonizing the Bourse's Procedures with the procedures on international exchanges where options on Canadian shares are interlisted. This should eliminate the inconsistencies across trading venues associated with having different procedures.

VIII. PROCESS

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

IX. ATTACHED DOCUMENTS

Proposed amendments to the *Procedures for the Cancellation or Adjustment of Trades* of the Bourse.

PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES

1. APPLICABLE RULES

The procedures herein are consistent with and refer to the following Rule Six articles of the Bourse:

6303 - Validation, Alteration or Cancellation of a Trade
6381 - Cancellation of Trades
6383 - Acceptable Market Price
6384 - Decision by the Market Supervisor of the Bourse
6385 - Delays of Decision and Notifications

2. SUMMARY OF THE RELATED RULES

In order to maintain a fair and equitable market, trades may be cancelled by the Bourse if such transactions are detrimental to the normal operation or quality of the market or in any other circumstance deemed appropriate considering market conditions at the time of the trade or if the parties involved in the trade agree to the cancellation.

3. OBJECTIVE

The objective of the procedures described herein is:

- To ensure that all transactions are executed at a price coherent with prevailing market conditions (integrity) and to ensure that input errors can be corrected.

4. LIMITATIONS FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS NOT OPEN FOR TRADING

The present procedures have a limited application in the case of trading sessions during which the underlying exchange-traded products are not open for trading.

4.1 ORDER ENTRY ERROR TRADES

During such trading sessions, the Market Operations Department of the Bourse ("Market Operations") will not establish a No Cancel Range. As a result, during such trading sessions, no trade shall be adjusted by the Market Operations and all trades will stand at the traded price level unless one of the parties to the trade reports an order entry error ("error trade") and both parties consent to cancel the resulting trade. Therefore, an error trade identified as such by a party to the trade and which both parties consent to cancel shall be cancelled by the Market Operations. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

4.2 TRADING RANGE

The Bourse will establish a trading range based on the previous day's settlement price for trading sessions where the underlying exchange-traded instruments are not open for trading. For that given session, trading will only be allowed within the trading range. Orders outside of the trading range will not be accepted by the system. Should either the high or the low of the trading range be reached, trading will only be allowed at that limit level until the market re-aligns itself back within the trading range.

4.3 EARLY SESSION NO CANCEL RANGE

Notwithstanding Section 4.1, during early sessions, the last traded price registered in the underlying security during that session on a Recognized Exchange or an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation ("Canadian ATS") shall be used to determine the No Cancel Range. If the Market Supervisor determines that the price of the trade executed during the early session was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the trade executed during the early session was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

5. DESCRIPTION FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS OPEN FOR TRADING OR WHOSE VALUE IS READILY AVAILABLE

5.1 DETECTION AND DELAYS

a) Trades Resulting from an Order Entry Error

Approved participants have the responsibility to report trades resulting from an error trade to the Market Operations without delay. As soon as an error trade resulting from an order entry error is identified by the approved participant, the approved participant must request an adjustment or cancellation of the error trade from a Market Supervisor of the Bourse by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366. If the Market Supervisor determines that the price of the error trade was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the error trade was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

b) Transactions Detrimental to the Normal Operation or Quality of the Market

If the Market Operations identifies transactions that are deemed detrimental to the normal operation or quality of the market, market supervisors can adjust or cancel the transaction. For the purpose of the present procedures, trades executed at a price outside the No Cancel Range shall be deemed transactions detrimental to the normal operation or quality of the market. If the Market Supervisor determines that a transaction detrimental to the normal operation or quality of the market has occurred, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

5.2 IMPLIED STRATEGY ORDERS

"Regular orders": Orders routed by approved participants to the Montréal Exchange trading system.

"Implied orders": Orders generated by the implied pricing algorithm (using regular orders) and registered in the order book by the trading engine.

"Implied strategy orders": Orders generated by the implied pricing algorithm composed of regular orders, one order for each individual leg.

"Regular strategy orders": Orders routed by approved participants to the Montréal Exchange trading system on instruments composed of two or more legs.

A strategy trade resulting from an implied strategy order is in reality composed of two or more separate regular orders, one order for each individual leg. For the purposes of this procedure, if an error trade occurs on an implied strategy order, the strategy trade will be deemed to have been executed using separate regular orders for each individual leg.

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an error strategy trade resulting from an implied strategy order will be at least the increment on one of the individual legs and at the most, the sum of each individual legs' increments.

5.3 VALIDATION – NO CANCEL RANGE

The No Cancel Range is defined as the price interval within which a trade shall not be cancelled outright or adjusted by the Market Operations.

To establish the No Cancel Range, Market Supervisors:

- Determine, in accordance with article 6383 of the Rules, what was the acceptable market price for the derivative instrument before the trade occurred. In making that determination, the Market Supervisor will consider all relevant information, including the last trade price, a better bid or offer, a more recent price for a related derivative instrument (for example a different expiry month) and the prices of similar derivative instruments trading on other markets;

- Apply (add and deduct) the following increments to the acceptable market price:

DERIVATIVE INSTRUMENT	INCREMENT
Three-Month Canadian Banker's Acceptance Futures – BAX (all quarterly and serial months)	5 basis points
Three-Month Canadian Banker's Acceptance Futures – BAX Strategies: - Regular strategy orders - Implied strategy orders	 5 basis points Sum of the strategy's individual legs' increments.
Options on Three-Month Canadian Banker's Acceptance Futures	5 basis points

DERIVATIVE INSTRUMENT	INCREMENT
Two-Year Government of Canada Bond Futures (CGZ) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Five-Year Government of Canada Bond Futures (CGF) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Ten-Year Government of Canada Bond Futures (CGB) - Regular strategy orders	40 basis points 20 basis points
30-Year Government of Canada Bond Futures (LGB) - Regular strategy orders - Implied Strategy orders	40 basis points 40 basis points Sum of strategy's individual legs' increments
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX Indices and on the FTSE Emerging Markets Index - Regular strategy orders	1% of the acceptable market price of these futures contracts 5% of the increments for the outright month
30-Day Overnight Repo Rate Futures Regular strategy orders	5 basis points 5 basis points
Overnight Index Swap Futures	5 basis points
Overnight Index Swap Futures – OIS Strategies: - Regular strategy orders - Implied strategy orders	5 basis points Sum of the strategy's individual legs' increments.
Futures and Options on Futures Inter-Group Strategies: - Regular strategy orders - Implied Strategy orders	Sum of strategy's individual legs' increments
Equity, Currency, ETF and Index Options Price ranges: ~~$0.00 to $5.00~~ ~~$5.01 to $10.00~~ ~~$10.01 to $20.00~~ ~~$20.00 up~~ Below $2.00 $2.00 to $5.00 Above $5.00 to 10.00$ Above $10.00 to $20.00 Above $20.00 to $50.00 Above $50.00 to $100.00 Above $100.00	~~$0.10~~ ~~$0.25~~ ~~$0.50~~ ~~$0.75~~ $0.25 $0.40 $0.50 $0.80 $1.00 $1.50 $2.00
Equity, Currency, ETF and Index Options Strategies: - Regular strategy orders - Implied strategy orders	Sum of the strategy's individual legs' increments

DERIVATIVE INSTRUMENT	INCREMENT
Sponsored Options Price ranges: $0.001 to $0.99 $1.00 up	 $0.25 $0.50
Canadian Share Futures Contracts Regular and extended sessions: Early session:	 1. 0.50$, if the acceptable market price of these futures contracts is less than 25$; 2. 1.00$, if the acceptable market price of these futures contracts is equal to or higher than 25$ but less than 100$; 3. 1% of the acceptable market price of these futures contracts if the acceptable market price of these futures contracts is equal to or higher than 100$. 5% of the acceptable market price of these futures contracts
Futures Contracts on Canadian Crude Oil	5% of the acceptable market price of these futures contracts.

5.4 TRADE PRICE INSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the reported error trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless both parties to the error trade agree to the cancellation.

Error trades that both parties have agreed to cancel, can be cancelled within the trading session (early, regular or extended) during which they have occurred. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

5.5 TRADE PRICE OUTSIDE THE NO CANCEL RANGE

When a trade with an execution price outside the No Cancel Range is reported to Market Operations as an error, or otherwise detected by Market Operations, the Market Supervisor will determine whether the trade price is within or outside the No Cancel Range for the particular derivative instrument.

If the Market Supervisor determines that the price of the trade is outside the No Cancel Range, then the Market Supervisor will endeavor to contact all parties involved in the transaction to advise them of the situation.

a) General Rule

The trade with an execution price that falls outside the No Cancel Range shall be adjusted by the Market Operations to the limit of the No Cancel Range.

The Market Operations will adjust error trades in the best interests of the market and the participants.The main objective when adjusting error trades is to minimize the impact for all market participants involved in the error trades and more particularly those who had a regular order in the order book.

b) Exceptions

However, in the following circumstances, the trade will be cancelled by Market Operations:

1. Both parties to the trade can be contacted within a reasonable delay and agree to the cancellation of the trade.

2. Neither party to the trade is either an approved participant or the registered holder of a SAM ID.

c) Implied Orders

Under the General Rule, the trades with an execution price that falls outside the No Cancel Range and that have not been cancelled will be adjusted to the limit of the No Cancel Range. In such a case, if the trade involved a linked implied order(s), the initiator of the original error trade will be responsible for the trade resulting from the linked implied order(s). The initiator of the error may therefore end up being party to the trades resulting from the linked implied order(s).

d) Decision

A decision to cancel or adjust will be rendered by a Market Supervisor within 30 minutes following the communication of the error and cancellation request by one of the parties, or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

5.6 OTHER SITUATIONS JUSTIFYING THE CANCELLATION OF TRADES

The Market Operations will review all circumstances surrounding a trade to determine whether the trade occurred in accordance with the rules of the Bourse. The factors that will be considered include, among other things, the market conditions immediately before and after the trade was executed; the volatility of the market; the prices of related instruments in other markets and the fact that one or many parties to the transaction consider that it was executed at a valid price.

In the case of a system failure, it is possible that the Bourse's automated trading system will freeze with orders queuing and waiting to be processed. Once the problem is resolved, the market will be placed into a pre-opening phase during which trading in each derivative instrument will be halted in order to modify the opening time parameters. This pre-opening phase will allow market participants to modify orders and will ensure that the system failure does not impact the integrity of the market. Nevertheless, when the system is not frozen, pending orders could be executed before the Bourse can halt the derivative instruments. In such circumstances, Market Supervisors may, in the best interest of the market and the participants, cancel trades resulting from such executions.

In case an underlying instrument experiences excessive volatile price swings, the exchange on which the underlying instrument is listed may freeze the instrument and may adjust any trades that fall outside the context of the market. When Market Operations becomes aware of such a freeze, the Bourse will freeze the corresponding derivative instrument. If pending orders in the corresponding derivative instrument are executed before the Market Operations can manually freeze the derivative instrument the Market Operations will cancel trades resulting from such executions.

5.7 DECISION

A decision to cancel or to refuse to cancel a transaction subject to Section 5.6 will be rendered by a Market Supervisor within 30 minutes following the cancellation request or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

If the decision is to cancel the trade, the Market Supervisor will remove the trade from the records. Furthermore, if “stop” orders were triggered and therefore executed as a result of the cancelled trade, then these “stop” trades will also be cancelled and the “stop” orders will have to be re-instated in the order book by the initiators of such orders. Trade cancellation messages will be disseminated.

When a trade is cancelled, if it originated from a regular order posted in the order book, the original price/time priority (FIFO) will not be maintained if the initiator of the original order wishes to re-instate his order after the cancellation. This cancelled order shall therefore be re-entered in the trading system by the initiator of the original order. This new order entry time will be the official entry time of the re-instated order.

If the Market Supervisor’s decision is to not cancel the trade, the parties to the trade can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.

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PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES

1. APPLICABLE RULES

The procedures herein are consistent with and refer to the following Rule Six articles of the Bourse:

6303 - Validation, Alteration or Cancellation of a Trade
6381 - Cancellation of Trades
6383 - Acceptable Market Price
6384 - Decision by the Market Supervisor of the Bourse
6385 - Delays of Decision and Notifications

2. SUMMARY OF THE RELATED RULES

In order to maintain a fair and equitable market, trades may be cancelled by the Bourse if such transactions are detrimental to the normal operation or quality of the market or in any other circumstance deemed appropriate considering market conditions at the time of the trade or if the parties involved in the trade agree to the cancellation.

3. OBJECTIVE

The objective of the procedures described herein is:

- To ensure that all transactions are executed at a price coherent with prevailing market conditions (integrity) and to ensure that input errors can be corrected.

4. LIMITATIONS FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS NOT OPEN FOR TRADING

The present procedures have a limited application in the case of trading sessions during which the underlying exchange-traded products are not open for trading.

4.1 ORDER ENTRY ERROR TRADES

During such trading sessions, the Market Operations Department of the Bourse (“Market Operations”) will not establish a No Cancel Range. As a result, during such trading sessions, no trade shall be adjusted by the Market Operations and all trades will stand at the traded price level unless one of the parties to the trade reports an order entry error (“error trade”) and both parties consent to cancel the resulting trade. Therefore, an error trade identified as such by a party to the trade and which both parties consent to cancel shall be cancelled by the Market Operations. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

4.2 TRADING RANGE

The Bourse will establish a trading range based on the previous day's settlement price for trading sessions where the underlying exchange-traded instruments are not open for trading. For that given session, trading will only be allowed within the trading range. Orders outside of the trading range will not be accepted by the system. Should either the high or the low of the trading range be reached, trading will only be allowed at that limit level until the market re-aligns itself back within the trading range.

4.3 EARLY SESSION NO CANCEL RANGE

Notwithstanding Section 4.1, during early sessions, the last traded price registered in the underlying security during that session on a Recognized Exchange or an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation ("Canadian ATS") shall be used to determine the No Cancel Range. If the Market Supervisor determines that the price of the trade executed during the early session was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the trade executed during the early session was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

5. DESCRIPTION FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS OPEN FOR TRADING OR WHOSE VALUE IS READILY AVAILABLE

5.1 DETECTION AND DELAYS

a) Trades Resulting from an Order Entry Error

Approved participants have the responsibility to report trades resulting from an error trade to the Market Operations without delay. As soon as an error trade resulting from an order entry error is identified by the approved participant, the approved participant must request an adjustment or cancellation of the error trade from a Market Supervisor of the Bourse by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366. If the Market Supervisor determines that the price of the error trade was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the error trade was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

b) Transactions Detrimental to the Normal Operation or Quality of the Market

If the Market Operations identifies transactions that are deemed detrimental to the normal operation or quality of the market, market supervisors can adjust or cancel the transaction. For the purpose of the present procedures, trades executed at a price outside the No Cancel Range shall be deemed transactions detrimental to the normal operation or quality of the market. If the Market Supervisor determines that a transaction detrimental to the normal operation or quality of the market has occurred, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

5.2 IMPLIED STRATEGY ORDERS

"Regular orders": Orders routed by approved participants to the Montréal Exchange trading system.

"Implied orders": Orders generated by the implied pricing algorithm (using regular orders) and registered in the order book by the trading engine.

"Implied strategy orders": Orders generated by the implied pricing algorithm composed of regular orders, one order for each individual leg.

"Regular strategy orders": Orders routed by approved participants to the Montréal Exchange trading system on instruments composed of two or more legs.

A strategy trade resulting from an implied strategy order is in reality composed of two or more separate regular orders, one order for each individual leg. For the purposes of this procedure, if an error trade occurs on an implied strategy order, the strategy trade will be deemed to have been executed using separate regular orders for each individual leg.

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an error strategy trade resulting from an implied strategy order will be at least the increment on one of the individual legs and at the most, the sum of each individual legs' increments.

5.3 VALIDATION – NO CANCEL RANGE

The No Cancel Range is defined as the price interval within which a trade shall not be cancelled outright or adjusted by the Market Operations.

To establish the No Cancel Range, Market Supervisors:

- Determine, in accordance with article 6383 of the Rules, what was the acceptable market price for the derivative instrument before the trade occurred. In making that determination, the Market Supervisor will consider all relevant information, including the last trade price, a better bid or offer, a more recent price for a related derivative instrument (for example a different expiry month) and the prices of similar derivative instruments trading on other markets;

- Apply (add and deduct) the following increments to the acceptable market price:

DERIVATIVE INSTRUMENT	INCREMENT
Three-Month Canadian Banker's Acceptance Futures – BAX (all quarterly and serial months)	5 basis points
Three-Month Canadian Banker's Acceptance Futures – BAX Strategies: - Regular strategy orders - Implied strategy orders	 5 basis points Sum of the strategy's individual legs' increments.
Options on Three-Month Canadian Banker's Acceptance Futures	5 basis points

DERIVATIVE INSTRUMENT	INCREMENT
Two-Year Government of Canada Bond Futures (CGZ) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Five-Year Government of Canada Bond Futures (CGF) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Ten-Year Government of Canada Bond Futures (CGB) - Regular strategy orders	40 basis points 20 basis points
30-Year Government of Canada Bond Futures (LGB) - Regular strategy orders - Implied Strategy orders	40 basis points 40 basis points Sum of strategy's individual legs' increments
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX Indices and on the FTSE Emerging Markets Index - Regular strategy orders	1% of the acceptable market price of these futures contracts 5% of the increments for the outright month
30-Day Overnight Repo Rate Futures Regular strategy orders	5 basis points 5 basis points
Overnight Index Swap Futures	5 basis points
Overnight Index Swap Futures – OIS Strategies: - Regular strategy orders - Implied strategy orders	5 basis points Sum of the strategy's individual legs' increments.
Futures and Options on Futures Inter-Group Strategies: - Regular strategy orders - Implied Strategy orders	Sum of strategy's individual legs' increments
Equity, Currency, ETF and Index Options Price ranges: Below $2.00 $2.00 to $5.00 Above $5.00 to 10.00$ Above $10.00 to $20.00 Above $20.00 to $50.00 Above $50.00 to $100.00 Above $100.00	 $0.25 $0.40 $0.50 $0.80 $1.00 $1.50 $2.00
Equity, Currency, ETF and Index Options Strategies: - Regular strategy orders - Implied strategy orders	Sum of the strategy's individual legs' increments
Sponsored Options Price ranges: $0.001 to $0.99 $1.00 up	 $0.25 $0.50

DERIVATIVE INSTRUMENT	INCREMENT
Canadian Share Futures Contracts Regular and extended sessions: Early session:	1. 0.50$, if the acceptable market price of these futures contracts is less than 25$; 2. 1.00$, if the acceptable market price of these futures contracts is equal to or higher than 25$ but less than 100$; 3. 1% of the acceptable market price of these futures contracts if the acceptable market price of these futures contracts is equal to or higher than 100$. 5% of the acceptable market price of these futures contracts
Futures Contracts on Canadian Crude Oil	5% of the acceptable market price of these futures contracts.

5.4 TRADE PRICE INSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the reported error trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless both parties to the error trade agree to the cancellation.

Error trades that both parties have agreed to cancel, can be cancelled within the trading session (early, regular or extended) during which they have occurred. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

5.5 TRADE PRICE OUTSIDE THE NO CANCEL RANGE

When a trade with an execution price outside the No Cancel Range is reported to Market Operations as an error, or otherwise detected by Market Operations, the Market Supervisor will determine whether the trade price is within or outside the No Cancel Range for the particular derivative instrument.

If the Market Supervisor determines that the price of the trade is outside the No Cancel Range, then the Market Supervisor will endeavor to contact all parties involved in the transaction to advise them of the situation.

a) General Rule

The trade with an execution price that falls outside the No Cancel Range shall be adjusted by the Market Operations to the limit of the No Cancel Range.

The Market Operations will adjust error trades in the best interests of the market and the participants.The main objective when adjusting error trades is to minimize the impact for all market participants involved in the error trades and more particularly those who had a regular order in the order book.

b) Exceptions

However, in the following circumstances, the trade will be cancelled by Market Operations:

1. Both parties to the trade can be contacted within a reasonable delay and agree to the cancellation of the trade.

2. Neither party to the trade is either an approved participant or the registered holder of a SAM ID.

c) Implied Orders

Under the General Rule, the trades with an execution price that falls outside the No Cancel Range and that have not been cancelled will be adjusted to the limit of the No Cancel Range. In such a case, if the trade involved a linked implied order(s), the initiator of the original error trade will be responsible for the trade resulting from the linked implied order(s). The initiator of the error may therefore end up being party to the trades resulting from the linked implied order(s).

d) Decision

A decision to cancel or adjust will be rendered by a Market Supervisor within 30 minutes following the communication of the error and cancellation request by one of the parties, or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

5.6 OTHER SITUATIONS JUSTIFYING THE CANCELLATION OF TRADES

The Market Operations will review all circumstances surrounding a trade to determine whether the trade occurred in accordance with the rules of the Bourse. The factors that will be considered include, among other things, the market conditions immediately before and after the trade was executed; the volatility of the market; the prices of related instruments in other markets and the fact that one or many parties to the transaction consider that it was executed at a valid price.

In the case of a system failure, it is possible that the Bourse’s automated trading system will freeze with orders queuing and waiting to be processed. Once the problem is resolved, the market will be placed into a pre-opening phase during which trading in each derivative instrument will be halted in order to modify the opening time parameters. This pre-opening phase will allow market participants to modify orders and will ensure that the system failure does not impact the integrity of the market. Nevertheless, when the system is not frozen, pending orders could be executed before the Bourse can halt the derivative instruments. In such circumstances, Market Supervisors may, in the best interest of the market and the participants, cancel trades resulting from such executions.

In case an underlying instrument experiences excessive volatile price swings, the exchange on which the underlying instrument is listed may freeze the instrument and may adjust any trades that fall outside the context of the market. When Market Operations becomes aware of such a freeze, the Bourse will freeze the corresponding derivative instrument. If pending orders in the corresponding derivative instrument are executed before the Market Operations can manually freeze the derivative instrument the Market Operations will cancel trades resulting from such executions.

5.7 DECISION

A decision to cancel or to refuse to cancel a transaction subject to Section 5.6 will be rendered by a Market Supervisor within 30 minutes following the cancellation request or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

If the decision is to cancel the trade, the Market Supervisor will remove the trade from the records. Furthermore, if “stop” orders were triggered and therefore executed as a result of the cancelled trade, then these “stop” trades will also be cancelled and the “stop” orders will have to be re-instated in the order book by the initiators of such orders. Trade cancellation messages will be disseminated.

When a trade is cancelled, if it originated from a regular order posted in the order book, the original price/time priority (FIFO) will not be maintained if the initiator of the original order wishes to re-instate his order after the cancellation. This cancelled order shall therefore be re-entered in the trading system by the initiator of the original order. This new order entry time will be the official entry time of the re-instated order.

If the Market Supervisor’s decision is to not cancel the trade, the parties to the trade can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.

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