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**CIRCULAR**  
**June 21, 2007**

**MODIFICATION OF THE MINIMUM QUOTATION SPREAD FOR EQUITY,  
INDEX PARTICIPATION UNIT AND INDEX OPTIONS CONTRACTS**

**AMENDMENTS TO ARTICLE 6624**

The Autorité des marchés financiers (AMF) approved amendments to article 6624 of Rule Six of Bourse de Montréal Inc. (MX) regarding the minimum quotation spreads for equity, index participation unit and index options contracts. (Decision number 2007-OAR-0018). The minimum quotation spread for equity options and index participation unit options will be \$0.01 and 0.01 index point for index options. Trading using these new minimum quotation spreads will start on July 27, 2007, which will be the effective date of the amendments to article 6624, on the following options classes:

iShares™ CDN S&P/TSX60 Index Fund	XIU
Barrick Gold Corporation	ABX
Rona Inc.	RON
Bombardier Inc.	BBD
EnCana Corporation	ECA
Teck Cominco Limited Cl. B	TCK
BCE Inc.	BCE
Sun Life Financial Inc.	SLF
Nortel Networks Corporation	NT
Research in Motion Limited	RIM

All series of the XIU option class and all series priced below \$3.00 in the other equity options classes enumerated above will be quoted in pennies. Series priced \$3.00 and higher in all options classes enumerated above, other than XIU options series, will be quoted in increments of \$0.05.

The first implementation phase of trading using these new minimum spreads will last 6 months. After a period of three months, the Bourse will provide to the AMF a report detailing the impact of this rule change on market conditions and the decision to continue with this rule modification or to expand its scope to include other classes of options will be subject to a review of this report. If it is decided to continue the program, the extension of the use of penny pricing to other options

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classes will be a function of the impact this change has on market makers, market quality, and market activity. The Bourse will provide approved participants with an analysis of the impact of penny trading on these performance metrics before extending the pricing parameters beyond the original ten options classes.

You will also find enclosed as Appendix II, comments received from TD Securities Inc. following the publication of our Request for comments circular no.: 020-2007 dated February 5, 2007.

Further details will be communicated all along the process.

For any questions, please contact either Richard Bourbonnière, Vice-President Market Operations ([rbourbonniere@m-x.ca](mailto:rbourbonniere@m-x.ca)) or Gladys Karam, Director, Options Market ([gkaram@m-x.ca](mailto:gkaram@m-x.ca)).

Joëlle Saint-Arnault  
Vice-President, Legal Affairs and Secretary

**6624 Minimum Quotation Spreads**

(13.03.87, 19.05.87, 20.03.91, 10.11.92, 07.04.94, 15.04.96, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 27.07.07)

The minimum quotation spread shall be:

- |                                     |   |
|-------------------------------------|---|
| a) Equity options                   | \$0.01  |
| b) Index participation unit options | \$0.01  |
| c) Index options                    | 0.01 index point  |
| d) Bond options                     | \$0.01  |
| e) Futures options                  | 0.01 point  |
| f) Sponsored options                | \$0.001 or as otherwise determined in consultation with the Canadian Derivatives Clearing Corporation and with the sponsor. |
| g) Currency options                 | CAN 0.01 cent per unit of foreign currency  |

**COMMENTS ON PROPOSED AMENDMENTS TO ARTICLE 6624 – MODIFICATION OF THE MINIMUM QUOTATION SPREAD FOR EQUITY, INDEX PARTICIPATION UNIT AND INDEX OPTIONS CONTRACTS .**

Comments Author	Comments	Reply to Comments
<p>TD Securities Inc.  (John Millet - Managing Director - Toronto)</p>	<p>While we are generally supportive of the penny pricing proposal, we believe that the Montréal Exchange should study closely the results of the penny pricing pilot program in the U.S. options market and use this information to decide if all classes should be migrated to penny pricing increments. So far, there seems to be a trade off of decreased observed spreads versus decreased market depth. The trade off of spreads versus depth may not make all classes suitable to penny quoting.</p>	<p>The Bourse will test penny pricing on a small group of names for a three-month period before extending the program to all classes. The decision to implement pennies on all classes will be function of the impact of this change on market makers and the quality of the market. At the end of the three-month period, the Bourse will prepare a study on the market quality pre and post pennies. The Bourse will also be studying closely the results of the penny pricing pilot program in the U.S. that should be available in July 2007.</p>
	<p>What are the MX's quote mitigation plans? In some classes the cost of increased quotation traffic could outweigh any benefits of penny quoting. While each participant should have logic to avoid flickering markets, what plans does the exchange have for mitigating excessive quotes?</p>	<p>The quote mitigation plans proposed in the U.S. market are in place to manage the capacity of OPRA (Options Prices Reporting Authority) to receive and process data from the six different exchanges. The Bourse's system has enough capacity to handle the increased quotation traffic due to penny quoting. Also, since the exchange has a duty to maintain a fair and orderly market, the Bourse will monitor excess traffic that is not related to moves in the underlying and has the capacity of removing a participant from the class in question.</p>
	<p>What changes to market structure are planned to minimize non-liquidity providers from stepping ahead of liquidity provider quotes? In penny quoting, it is very easy for a participant not supplying liquidity to the market to step ahead of a liquidity providers' quote to gain execution priority. This would reduce the incentive for liquidity providers to quote aggressively on less liquid options. What changes in market structure is the exchange planning to encourage market participants to provide liquidity under penny pricing?</p>	<p>The Bourse does not provide bulk quotes to non-liquidity providers which gives liquidity providers a significant advantage. The Bourse is in the process of reviewing the structure of its market model in general and especially in the context of penny trading.</p>

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	<p>What has the Exchange done to ensure it can handle the increased quote traffic? Moving to pennies will greatly increase the quote traffic, what safeguards have been put in place to ensure the exchange can handle the increase? Are there plans to increase the number of messages a market maker can send before being throttled?</p>	<p>The Bourse uses a complete set of metrics to establish the overall utilization ratio of its trading platform (SOLA). The Bourse estimates that SOLA is used on average at a rate of less than 10%. A peak in the rate of utilization was reached in the last week of February 2007 when the system processed 274 messages per second for a total of 6,906 price updates per second. During this event, the system presented a utilization ratio of less than 20%. Based on the performance of the platform with BOX, the Bourse estimates that penny trading on all the classes will result in a 20% increase in messaging traffic. More capacity is available for market makers if needed.</p>
	<p>Will the exchange monitor and publish data on the changes in market quality due to the change to penny increments? To gauge the value of changing to penny increments for different classes will the exchange publish data on quality of markets pre and post penny pricing? Quality of market data should include quoted spread as well as market depth.</p>	<p>As mentioned above, the Bourse will be monitoring the impact of penny trading on different parameters including the quality of the markets pre and post pennies.</p>