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CIRCULAR 108-17
July 12, 2017

SELF-CERTIFICATION

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

AMENDMENTS TO THE *PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES* OF THE BOURSE DE MONTRÉAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to the *Procedures Applicable to the Execution of Strategies Involving Options* of the Bourse to render the use of the “User-Defined Strategy” Facility by Approved Participants Mandatory. Amendments were also made to the *Procedures Applicable to the Execution of Strategies Involving Futures and Options on Futures* of the Bourse. These amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01)

These amendments, as attached, will become effective on **August 1st, 2017** before market opening. Please note that it will also be available on the Bourse’s website (www.m-x.ca).

The modifications under the present circular were published for public comment by the Bourse on May 15, 2017 (see Circular 066-17). Pursuant to the publication of this circular, the Bourse received one comment letter. A summary including comments received and responses from the Bourse is attached.

For additional information, please contact Robert Tasca, by telephone at (514) 871-3501 or by email at robert.tasca@tmx.com.

Robert Tasca
Director – Interest Rate Derivatives and Client Solutions Group

PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS

1. OBJECTIVE

The objective of these procedures is to provide and facilitate the trading of strategies involving equity options for approved participants. For the purposes of these procedures, equity options also include options on indices, currencies and exchange-traded funds. Approved participants may create user-defined strategies (“UDS”) via individual trading terminals which allow customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal Inc.’s (“Bourse”) Market Operations Department (“MOD”) at 1 866 576-8836 or 514 871-7877 for assistance in creating or executing a UDS ~~or in presenting an options strategy to designated market makers and, when applicable, ensuring its manual execution in the Bourse’s trading system.~~

2. DESCRIPTION

Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system through any of the protocols supported by the Bourse. This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via Bourse’s High Speed Vendor Feed (“HSVF”) and the Order Book Feed (“OBF”), similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

Creation by MOD

~~If an approved participant does not have the capability to create a UDS or If a strategy can not be created using the UDS facility because it is not accepted by the Bourse’s trading system, the approved participant may contact the MOD and request the creation of the UDS. The UDS must conform to the acceptance criteria as determined by Bourse from time to time. The information provided by the approved participants to the MOD must include the option series involved and the quantity ratio, the price and the total quantity of the order. Approved participants must have received and time-registered their order prior to contacting the MOD. If the intended strategy includes an equity leg, the approved participant must also indicate the reference price of the underlying interest and the number of shares to be executed in the strategy.~~

~~The UDS functionality will validate that the strategy created is among those that are accepted by~~

~~the system.~~ If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse's High Speed Vendor Feed (HSVF) and the Order Book Feed (OBF), similar to the broadcast of any instrument.

In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering and executing the orders.

Execution by MOD

All option strategies must be executed using the Bourse's UDS facility. Notwithstanding the aforementioned, if a strategy cannot be created and broadcasted using the UDS because the strategy type is not supported by the UDS facility is not accepted by Bourse, or because one of the strategy legs is the underlying shares ~~approved participant does not have the capability to create and place orders on a UDS~~, the approved participant may submit to the Bourse a strategy order for execution using the following procedure:

- A) The approved participant must contact the MOD and indicate its option strategy. The information provided must include the option series involved, the quantity ratio, the price and the total quantity of the order. Approved participants must have received and time-registered their order prior to contacting the MOD. If the intended strategy includes an equity leg, the approved participant must also indicate the reference price of the underlying interest and the number of shares to be executed in the strategy.
- B) The MOD will contact qualifying market makers assigned to the option class. A qualifying market maker is defined as a market maker that is showing a bid/ask market no wider than the no-bust range of that instrument, with a minimum of ~~ten~~ 10 contracts per side. The MOD will respect the following procedure:
 - (i) For strategies involving less than 50 contracts per leg, market makers will be contacted individually based on the market maker quoting the tightest market on the options legs comprising the strategy. ~~as their turn comes up, according to a rotation kept by the MOD;~~
 - (ii) For strategies involving between 50 and 99 contracts per leg, market makers will be contacted by groups of two, according to their rank on their quotes on the rotation;
 - (iii) For strategies involving 100 contracts or more per leg, all qualifying market makers quoting on the option legs of the strategy will be contacted.

In the event that a strategy is comprised of multiple legs, the MOD will take into account the option with the furthest expiry to determine which participating market makers will be contacted. Qualifying market makers will be contacted and shown the strategy as submitted by the approved participant. If the market maker(s) accepts the prices provided by the MOD, the transaction will be entered and broadcast to all relevant parties (approved participants, market makers, and stock exchange, if necessary).

- C) The market makers may provide responding bids, offers and quantities:
 - (i) If market makers choose to participate on the strategy, they must be willing to trade all parts inherent to the transaction (all series, shares) but they will not be obligated

to trade the entire quantity

- (ii) If a particular market maker is not available within 15 seconds of the market supervisor of the MOD initiating the telephone call, no additional attempts to contact him will be made. The market maker should provide an answer to the MOD within approximately 30 seconds of the strategy description given by the MOD. Allowance will be made for a longer response time in the case of a particularly complex strategy. If all attempts fail the order will be rejected.
- D) In some situations where the strategy cannot be executed, the MOD may inform the approved participant of the best corresponding bid/offer as well as the corresponding quantities obtained by market makers. Once the details of the transaction are negotiated and confirmed, information on the transaction will be entered into the Bourse's trading system by the MOD and broadcast to the marketplace. The strategy trade will be broadcast via the Bourse's Web site and the leg prices and volumes will be disseminated via the Bourse's data feed. If the transaction includes an equity leg and the option leg has been executed, the MOD will submit the equity portion of the strategy to the venue where the equity is traded.

Execution of Cross Transaction on Strategies Involving Options

- 1) Cross Transactions with a 50% guaranteed minimum will not be accepted electronically – Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.
- 2) Cross transactions on equity options strategies **without** a 50% guaranteed minimum will be accepted electronically - Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.

PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS

1. OBJECTIVE

The objective of these procedures is to provide and facilitate the trading of strategies involving equity options for approved participants. For the purposes of these procedures, equity options also include options on indices, currencies and exchange-traded funds. Approved participants may create user-defined strategies (“**UDS**”) via individual trading terminals which allow customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal Inc.’s (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 866 576-8836 or 514 871-7877 for assistance in creating or executing a UDS when applicable.

2. DESCRIPTION

Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system through any of the protocols supported by the Bourse. This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via Bourse’s High Speed Vendor Feed (“**HSVF**”) and the Order Book Feed (“**OBF**”), similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

Creation by MOD

If a strategy can not be created using the UDS facility because it is not accepted by the Bourse’s trading system, the approved participant may contact the MOD and request the creation of the UDS. The information provided by the approved participants to the MOD must include the option series involved and the quantity ratio,

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

In such cases, the MOD’s assistance is limited to creating the UDS. Approved participants are responsible for entering and executing the orders.

Execution by MOD

All option strategies must be executed using the Bourse's UDS facility. Notwithstanding the aforementioned, if a strategy cannot be created and broadcasted using the UDS because the strategy type is not supported by the UDS facility, or because one of the strategy legs is the **underlying shares** the approved participant may submit to the Bourse a strategy order for execution using the following procedure:

- A) The approved participant must contact the MOD and indicate its option strategy. The information provided must include the option series involved, the quantity ratio, the price and the total quantity of the order. Approved participants must have received and time-registered their order prior to contacting the MOD. If the intended strategy includes an equity leg, the approved participant must also indicate the reference price of the underlying interest and the number of shares to be executed in the strategy.
- B) The MOD will contact qualifying market makers assigned to the option class. A qualifying market maker is defined as a market maker that is showing a bid/ask market no wider than the no-bust range of that instrument, with a minimum of 10 contracts per side. The MOD will respect the following procedure:
 - (i) For strategies involving less than 50 contracts per leg, market makers will be contacted individually based on the market maker quoting the tightest market on the options legs comprising the strategy.
 - (ii) For strategies involving between 50 and 99 contracts per leg, market makers will be contacted by groups of two, according to their rank on their quotes
 - (iii) For strategies involving 100 contracts or more per leg, all qualifying market makers quoting on the option legs of the strategy will be contacted.

In the event that a strategy is comprised of multiple legs, the MOD will take into account the option with the furthest expiry to determine which participating market makers will be contacted. Qualifying market makers will be contacted and shown the strategy as submitted by the approved participant. If the market maker(s) accepts the prices provided by the MOD, the transaction will be entered and broadcast to all relevant parties (approved participants, market makers, and stock exchange, if necessary).

- C) The market makers may provide responding bids, offers and quantities:
 - (i) If market makers choose to participate on the strategy, they must be willing to trade all parts inherent to the transaction (all series, shares) but they will not be obligated to trade the entire quantity
 - (ii) If a particular market maker is not available within 15 seconds of the market supervisor of the MOD initiating the telephone call, no additional attempts to contact him will be made. The market maker should provide an answer to the MOD within approximately 30 seconds of the strategy description given by the MOD. Allowance will be made for a longer response time in the case of a particularly complex strategy. If all attempts fail the order will be rejected.
- D) In some situations where the strategy cannot be executed, the MOD may inform the approved participant of the best corresponding bid/offer as well as the corresponding quantities obtained by market makers. Once the details of the transaction are negotiated and confirmed, information on the transaction will be entered into the Bourse's trading system by the MOD and broadcast to the marketplace. The strategy trade will be broadcast

via the Bourse's Web site and the leg prices and volumes will be disseminated via the Bourse's data feed. If the transaction includes an equity leg and the option leg has been executed, the MOD will submit the equity portion of the strategy to the venue where the equity is traded.

Execution of Cross Transaction on Strategies Involving Options

- 1) Cross Transactions with a 50% guaranteed minimum will not be accepted electronically – Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.
- 2) Cross transactions on equity options strategies **without** a 50% guaranteed minimum will be accepted electronically - Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.

PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES

1. OBJECTIVE

The objective of these procedures is to provide for and facilitate the trading of strategies involving futures contracts and options on futures contracts from the same product group, .i.e. contracts with the same underlying (“**Intra-Group Strategies**”) as well as from different product groups, .i.e. contracts with different underlyings (“**Inter-Group Strategies**”). Strategies involving futures contracts and options contracts on such futures contracts are Inter-Group Strategies. Approved participants may create user-defined Intra-Group or Inter-Group Strategies (each, a “**UDS**”) via individual trading terminals which allow for customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal inc. (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 888 693-6366 or 514 871-7871 for assistance in creating a UDS.

2. DESCRIPTION

Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system through any of the protocols supported by the Bourse. This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast in real time to the market via Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

Creation by MOD

If a strategy cannot be created using the UDS facility because it is not accepted by the Bourse’s trading system, ~~n approved participant does not have the capability to create a UDS~~, the approved participant may contact the MOD and request the creation of the UDS. The UDS must conform to the acceptance criteria as determined by Bourse from time to time.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument.

In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering orders.

PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES

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In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering orders.

Circular 066-17: Summarized comments and responses

No.	Date comments received	Commentating participant category	Summary of comments	Summary of response
1.	June 13, 2017	Brokers	<p>Some participants' systems will not support the UDS facility. Not all independent software vendors support the facility. The additional cost to update/change their systems makes no financial sense for these participants.</p> <p>The option of asking participants to execute each leg of the strategy individually via the legs' central limit order book is not a valid solution since, as mentioned in the circular, it creates execution risk.</p> <p>The option of transferring the strategy order flow to brokers who have adopted the UDS facility may not be a valid solution as brokers may not want to trade a strategy for a client and execute it elsewhere.</p>	<p>Since 2015, the Bourse has published a guide on its website to help participant familiarize themselves with the UDS facility and if feasible develop to it. The UDS facility has been offered since March 2011 and is now supported by the majority of independent software vendors. In addition, the Bourse has socialized to potentially impacted participants its intent to render the use of the UDS facility mandatory for the execution of option strategies.</p> <p>There is no reason why the Bourse should bear the operational risks associated with the manual execution of options strategies by the Market Operations Department, for a limited number of participants/clients.</p> <p>There is no reason why the Bourse should bear the operational risks associated with the manual execution of options strategies by the Market Operations Department, for a limited number of participants/clients.</p>