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|---|---|---|---|
| ☒ | Trading – Interest Rate Derivatives | ☒ | Back-office - Options |
| ☒ | Trading – Equity and Index Derivatives | ☐ | Technology |
| ☒ | Back-office – Futures | ☒ | Regulation |
| | | ☐ | MCeX |

**CIRCULAR**
**October 15, 2010**

**REQUEST FOR COMMENTS**

**IMPLEMENTATION OF INTRADAY USER DEFINED STRATEGIES**

**AMENDMENT TO THE PROCEDURES FOR THE CANCELLATION OF TRADES**

**AND**

**INTRODUCTION OF NEW PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS**

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved the introduction of new Procedures Applicable to the Execution of Strategies involving Options (the "**New Procedures**") and amendments to the Procedures for the Cancellation of Trades (the "**Cancellation Procedures**") in order to implement intraday user defined strategies for the benefit of the Bourse's equity options, currency options, options on exchange-traded funds and index options markets.

Comments on the New Procedures and amendments to the Cancellation Procedures must be submitted within 30 days following the date of publication of the present, at the latest on **November 15, 2010**. Please submit your comments to:

*Mr. François Gilbert*
*Vice-President, Legal Affairs, Derivatives*
*Bourse de Montréal Inc.*
*Tour de la Bourse*
*P.O. Box 61, 800 Victoria Square*
*Montréal, Quebec H4Z 1A9*
*E-mail: legal@m-x.ca*

Circular no.: 133-2010

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

*Ms. Anne-Marie Beaudoin*
*Director – Secretariat of L'Autorité*
*Autorité des marchés financiers*
*800 Victoria Square, 22nd Floor*
*P.O. Box 246, Tour de la Bourse*
*Montréal (Quebec)  H4Z 1G3*
*E-mail:  consultation-en-cours@lautorite.qc.ca*

**Appendices**

For your information, you will find in appendices an analysis of the New Procedures and proposed amendments as well as the New Procedures and amended Cancellation Procedures. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as determined by the *Derivatives Act* (R.S.Q., chapter I-14.01).

**Process for Changes to the Rules**

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the Derivatives Act (R.S.Q., chapter I-14.01).



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**IMPLEMENTATION OF INTRADAY USER DEFINED STRATEGIES**

**AMENDMENT TO THE PROCEDURES FOR THE CANCELLATION OF TRADES**

**AND**

**INTRODUCTION OF NEW PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS**

# I. INTRODUCTION

Bourse de Montréal inc. (the "**Bourse**") intends to implement intraday user defined strategies ("**UDS**") for the benefit of the Bourse's equity options, currency options, options on exchange-traded funds and index options markets (hereinafter, the "**Options Markets**").

In order to implement UDS on the Options Markets, the Bourse hereby proposes to introduce the new Procedures Applicable to the Execution of Strategies involving Options (the "**New Procedures**") and to amend the Procedures for the Cancellation of Trades (the "**Cancellation Procedures**").

## A. Definitions

**Central Limit Order Book** ("**CLOB**"): A centralized database of limit orders.

**Implied orders**: Orders that are synthetically generated (derived) and registered in the book by the trading engine using regular orders.

**Leg or Legging**: A risk-oriented method of establishing a two-sided position. Rather than entering into a simultaneous transaction to establish the position (a spread, for example), the trader first executes one side of the position, hoping to execute the other side at a later time and a better price. The risk materializes from the fact that a better price may never be available, and a worse price must eventually be accepted.

**Limit order**: Is an order to buy a security at no more, or sell a security at no less, than a specific price.

**Regular orders**: Outright orders entered through any given certified independent software vendor (ISV) or proprietary trading solution and routed by approved participants directly to the Bourse's trading system.

**Strategy trade**: is implemented by combining one or more option positions and possibly an underlying stock position.

## II. DETAILED ANALYSIS

### A. Rationale

The Bourse currently operates a marketplace with a CLOB. All trades in the Options Markets are executed solely from regular orders entered by approved participants ("**AP**") and routed to the Bourse's trading engine.

The Bourse currently allows APs to combine derivatives and underlying instruments to execute strategies in the Options Markets, but these strategies are not supported electronically, i.e. they are not user-created, disseminated or executed within the CLOB. To execute such strategies, APs contact the Market Operations Department of the Bourse (the "**MOD**") to place their strategy orders and market supervisors of the MOD assist them by informing market makers of these strategy orders and by completing the execution and recording of the trades.

In the Bourse's current trading environment, executing strategies through legging exposes APs to leg and execution risks, i.e. being unable to secure all the legs of the strategy for the required quantity and at the required price. APs therefore require the MOD's assistance to execute their strategies at the specified terms. However, such strategies are not listed in the CLOB, and thus are not visible to all APs. This lack of visibility results in limited liquidity for strategies.

Consequently, the Bourse intends to implement UDS for Options Markets to provide, within its trading engine, a CLOB in which all strategies would be managed and which would be maintained separately from the existing CLOB for Options Markets. This service would offer APs the ability to create Options Markets strategies and expose them to all APs.

With this implementation, APs would be able to customize strategies to their risk management needs as UDS would be created via individual trading terminals within the Bourse's trading engine.

As newly formulated UDS would be created, listed and disseminated intraday on a real-time basis to all APs, it should provide greater accessibility, transparency and liquidity for strategies than is currently available.

The proposed implementation would also permit faster and more efficient execution of strategies that are currently created, executed and reported manually. As well, it would permit the execution of strategies with limited execution risk compared to executing each leg individually and considering the time delays inherent to manual execution under the current trading environment.

### B. Benchmarking

The following exchanges implemented UDS or complex orders functionalities. Both are similar as they allow market participants to define strategies and enter orders. However, they differ in that UDS functionalities require that market participants first create strategies and then enter orders on newly created strategies, while complex orders functionalities proceed with both in a single step.

| Exchange | Available on Futures or Options | Offers UDS | No Cancel Range Increments | UDS Criteria |
|---|---|---|---|---|
| Chicago Mercantile Exchange (CME) | Futures & Options | yes | Implied Eligible Inter- and Intra-Commodity Futures Spreads: Same as the no bust range of the individual legs<br>Inter-Commodity Futures Spreads : The wider of the no bust ranges of the two individual legs (Rule 588) | -supports both recognized (CME Globex standard spread types) and unrecognized (not a standard spread type; generic)<br>-CME supports all generic strategies, regardless of ratios, while allowing up to 40 legs.<br>-allows users to create delta neutral strategies<br>-does not support intercommodity spreads<br>-supports Butterfly, Conditional Curve, Condor, Double, Horizontal Straddle, Iron condor, Strip, Risk Reversal,Straddle Strips, Xmas Tree, 3-Way, Iron Butterfly, Jelly Roll, Guts, and Box spreads, with corresponding ratios. |
| Chicago Board Option Exchange (CBOE) | Options | Offers a Complex Order Book for options | No specific procedure for cancelling or adjusting spreads; they apply the same rules for spreads as regular options trading. (Rule 6.25) | -accepts up to 4 legs<br>-only complex orders for origins CUSTOMER,FIRM, and BD orders may be booked<br>-orders with a ratio of 1:1,1:2, 1:1:1, 1:2:1, 1:1:1:1 are bookable<br>-market orders are not bookable<br>-orders with a stock leg are not bookable |
| International Securities Exchange<br>(ISE) | Futures and Options | Offers ISEspreads® Complex Order Book | No specific procedure for cancelling or adjusting spreads; they apply the same rules for spreads as regular options trading. (Rule 720) | Up to 4 option legs and 1 stock leg<br>- Max ratio 3:1<br>- Buy-Write and Delta Neutral orders<br>- Orders and executions in pennies<br>- available in over 2000 products<br>- Market and Limit Orders<br>- IOC, FOK, Day, GTC Orders |
| NYSE AMEX | Options | Complex Matching Engine | No separate policy concerning the no-bust ranges involving strategies or implied strategies; The rules for busting strategy trades are the same ones used for busting outright trades. (Rule 975NY) | -accepts all strategies up to 5 legs<br>- maximum ratio 3:1/1:3<br>- no predefined strategies<br>- options legs only<br>-Complex Order Book provides secure executions for limit orders priced in pennies<br>-marketable complex orders will trade immediately with no auction or delay in processing |

| | | | | |
|---|---|---|---|---|
| NASDAQ PHLX | Options | Complex Order Book | No separate policy concerning the no-bust ranges involving strategies or implied strategies; The rules for busting strategy trades are the same ones used for busting outright trades. (Rule 1092) | -currently supports two-sided order types(spreads, straddles, ratios, combinations, collars and risk reversals<br>-to be expanded to up to 6 legs in the near future<br>-orders may be entered as market or limit in penny increments<br>-will accept any ratio spread<br>-orders can be Day, GTC, IOC, and AON<br>-orders submitted by customers and Non-Market Maker Broker/Dealers are eligible for the price improvement auction and Complex Order Book (CBook) |

## III. PROPOSED REGULATORY AMENDMENTS

### A. The New Procedures

The Bourse hereby proposes to introduce the New Procedures to provide for and facilitate the process of trading UDS in the Options Markets.

The Bourse proposes that the New Procedures specify that UDS may be created by APs subject to acceptance criteria established and published by the Bourse from time to time.

Under the proposed New Procedures, UDS that conform to these acceptance criteria would be electronically created and disseminated to all APs via the Bourse's market data feed. However, UDS that would not conform to the acceptance criteria would generate an error message transmitted to the AP that submitted these strategies. In such event, the AP could nevertheless contact the MOD in order to execute strategy trades manually.

Once duly created, APs would be able enter orders for those strategies. Upon execution of UDS, individual legs of strategies would be reported in the market data feed.

UDS that would not have traded during the course of the trading day on which they were created would be deleted from the CLOB while UDS that would have traded would remain until the close of the following trading day.

Until they develop all appropriate functionalities to access the Bourse's UDS functionalities, APs could continue to contact the MOD to execute their strategy trades manually.

### B. Amendment to the Cancellation Procedures

In addition to the proposed introduction of the New Procedures, the Bourse hereby proposes to amend the Cancellation Procedures, as follows:

First, the Bourse proposes to the delete the thresholds of 5 and 10 basis points specific to the Three-Month Canadian Banker's Acceptance Futures (BAX) provided for in Section 5.2 of the

Cancellation Procedures in order to broaden the scope of such provisions so as not to refer solely to the BAX market.

Second, the Bourse proposes that the increments applicable to the establishment of the No Cancel Range for regular and implied options strategy orders be the sum of the No Cancel Range increments of strategies' individual legs. This level would be consistent with the BAX spread increments. Any trade outside such No Cancel Range would be, as the case may be, either cancelled or adjusted by Market Supervisors in accordance with the provisions of Section 5.5 of the Cancellation Procedures.

Third, the Bourse proposes that the definition of the term "implied spread orders" be extended to include implied strategy orders in order to encompass the strategies that would acceptable under the proposed New Procedures.

## IV. OBJECTIVES AND CONSEQUENCES

The objective of the proposed amendments to the Bourse's procedures described in this document is to allow the implementation of UDS in the Options Markets.

With such implementation, the Bourse could allow APs to create customized exchange-traded strategies involving a limited execution risk. APs would further benefit from facilitated order-entry and accelerated trade execution process.

As described more fully above, the proposed implementation of UDS should provide APs with a more accessible, transparent and efficient trading environment.

A strategy CLOB would also require less manual intervention, which would provide a more prompt and effective trading environment for strategies in Options Markets. Furthermore, it would allow APs the flexibility to create strategies adapted to their risk management needs, providing a more expansive and flexible product offering tailored to user requirements.

## V. PUBLIC INTEREST

The proposed modifications will improve the quality of the Options Markets by enhancing accessibility to strategies, transparency and efficiency. Market accessibility, transparency and efficiency are key objectives of the Bourse, and the Bourse considers that the proposed implementation of UDS serves the public interest.

## VI. PROCESS

The proposed modifications, including this analysis, were 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.

## VII. REFERENCES

CME Group, *CBOT Rulebook*, Chapter 5, Rule 588
http://www.cmegroup.com/rulebook/CBOT/I/5/88.html

CME Globlex, Electronic Trading Concepts Version 1.8

http://www.cmegroup.com/globex/files/ElectronicTradingConcepts.pdf

Chicago Board Options Exchange, *CBOE Rules*, Rule 6.25
http://cchwallstreet.com/CBOETools/PlatformViewer.asp?searched=1&selectednode=chp%5F1%5F1%5F6%5F2%5F8&CiRestriction=trade+adjustment&manual=%2Fcboe%2Frules%2Fcboe%2Drules%2F

Chicago Board Options Exchange, Regulatory Circular RG06-67 dated June 28, 2006
http://www.cboe.org/publish/RegCir/RG06-067.pdf

ISE Rules, Rule 720
https://www.ise.com/assets/documents/OptionsExchange/legal/rules/rules.pdf

NYSE AMEX Options, Rule 975NY
http://www.nyse.com/pdfs/NYSEAmexObviousErrorRule.pdf

NYSE Euronext, Trader Update dated September 8, 2009
http://www.nyse.com/pdfs/Complex_Matching_Engine_Amex.pdf

NASDAQ PHLX, Options Rules, Rule 1092
http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLXTools/PlatformViewer.asp?selectednode=chp%5F1%5F2%5F1%5F85&manual=%2Fnasdaqomxphlx%2Fphlx%2Fphlx%2Drulesbrd%2F

NASDAQ OMX PHLXSM (PHLX®), Complex Order System
www.nasdaqtrader.com/content/phlx/complexorders.pdf

## VIII. ATTACHED DOCUMENTS

*Procedures for the Cancellation of Trades*

*Procedures Applicable to the Execution of Strategies Involving Options*

Acceptance criteria

**PROCEDURES FOR THE CANCELLATION 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 a vice-president or a senior vice-president of 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. PROCEDURES' LIMITATION

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.

In the event of erroneous trades during such trading sessions, the Market Operations department of the Bourse will not establish a No Cancel Range. As a result, such trades will not be adjusted by the Market Operations department of the Bourse and will stand at the traded price level unless both parties consent to cancel the erroneous trade. In such case the trade will be cancelled by the Market Operations department of the Bourse.

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

## 5. DESCRIPTION

### 5.1 DETECTION AND DELAYS

Market participants have the responsibility to identify without delay erroneous trades. As soon as an erroneous transaction resulting from an entry error is identified, the approved participant must advise a Market Supervisor of the Bourse by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366. A Market Supervisor will then contact the counterparties to the trade in order to reach an agreement within the 15 minutes that follow the execution of the transaction as prescribed by article 6381 of the Rules of the Bourse.

## 5.2 IMPLIED ~~SPREAD~~ 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.

**"Strategy":** An instrument composed of two or more legs, including spreads

A ~~spread~~ strategy trade resulting from an implied ~~spread~~ strategy order is in reality constituted from each of the individual legs regular outright orders. For the purpose of this procedure, an erroneous trade occurring on an implied ~~spread~~ strategy order will be treated as if the ~~spread~~ strategy trade was executed using regular posted orders of each individual leg separately.

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an erroneous ~~spread~~ strategy trade resulting from an implied ~~spread~~ strategy order will be at least the increment on one of the individual legs ~~(5 basis points)~~ and at the most, the sum of each individual legs' increments ~~(10 basis points)~~.

## 5.3 VALIDATION – NO CANCEL RANGE

In order to maintain market integrity, when a transaction outside the No Cancel Range is identified by Market Supervisors, the parties involved will be contacted within a reasonable delay by the Market Operations Department of the Bourse in order to adjust the trade price within the No Cancel Range.

When any potential erroneous trade is brought to the attention of a Market Supervisor by a market participant, the Market Supervisor will determine whether the trade price is in the No Cancel Range for the particular derivative instrument.

The No Cancel Range is defined as the price interval within which a trade cannot be cancelled. 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 was 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 |
|---|---|

| 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 ~~Spreads~~Strategies:<br>- Regular ~~spread~~ strategy orders<br>- Implied ~~spread~~ strategy orders | <br><br>5 basis points<br>5 to 10 basis points; sum of the ~~spread's~~ strategy's individual legs' increments. |
| Options on Three-Month Canadian Banker's Acceptance Futures | 5 basis points |
| Government of Canada Bond Futures | 40 basis points |
| Options on Government of Canada Bond Futures | 40 basis points |
| Futures Contracts on S&P/TSX Indices | 1% of the acceptable market price of these futures contracts |
| Options on S&P/TSX Indices<br>First three serial months | 0.5 index point |
| Options on S&P/TSX Indices<br>Next two quarterly months | 1 index point |
| Equity, Currency, ETF and Index Options<br>Price ranges: $0.00 to $5.00<br>$5.01 to $10.00<br>$10.01 to $20.00<br>$20.00 up | <br>$0.10<br>$0.25<br>$0.50<br>$0.75 |
| Equity, Currency, ETF and Index Options Strategies:<br>- Regular strategy orders<br>- Implied strategy orders | <br><br>Sum of the strategy's individual legs' increments |
| Sponsored Options<br>Price ranges: $0.001 to $0.99<br>$1.00 up | <br>$0.25<br>$0.50 |
| Single Stock Futures | $2.00 |
| 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 erroneous trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless the counterparty to the erroneous trade has agreed to cancel it.

Erroneous transactions, for which there has been consent between the parties to cancel, may be cancelled within the trading session (early, regular or extended) during which they have occurred.

## 5.5 TRADE PRICE OUTSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the erroneous trade is outside the No Cancel Range, then all parties involved in the transaction will be contacted and advised of the situation.

The transaction will be cancelled if all parties involved are in agreement.

The transaction will not be cancelled if one of the parties involved refuses. The residual trades (the ones not cancelled) will be readjusted to the limit of the No Cancel Range. In such a case, if the transaction involved a linked implied order, the initiator of the original error trade will take responsibility for the outcome. The error initiator may therefore have to take ownership of market positions for the directly resulting trades in the other linked contracts.

The Market Operations Department of the Bourse will adjust erroneous transactions in the best possible way. The main objective when adjusting erroneous trades is to minimize the impact for all market participants involved in the erroneous transaction and more particularly those who had a regular order in the order book.

## 5.6 OTHER SITUATIONS JUSTIFYING THE CANCELLATION OF TRANSACTIONS

The Market Operations Department of the Bourse will review all circumstances surrounding a transaction 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 could have to cancel trades resulting from such executions.

## 5.7 MULTIPLE MARKET MAKER TRANSACTIONS ON EQUITY~~,~~ AND INDEX ~~AND BOND~~ OPTIONS

A Market Supervisor may also cancel transactions under the following conditions:

1. Multiple consecutive transactions can be cancelled if they consist of four (4) or more transactions against one market maker provided that:
    - all transactions were executed within a one (1) second interval;
    - the opposite side of the transactions consists of one or several market makers.
2. The market maker involved in the four (or more) transactions contacted a Market Supervisor at 514 871-7877 or 1-866-576-8836 within one (1) minute of the execution time of the multiple consecutive transactions, to request their cancellation.

## 5.8 DECISION

A decision to cancel or to refuse to cancel will be rendered by a Market Supervisor within 30 minutes following the cancellation request.

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 transaction 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 transaction can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.

**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 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 in any of the supported protocols (SAIL, FIX or STAMP). 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, 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. This serves the purpose of minimizing any abuse of instrument creation requests by approved participants. 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, 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.

**Execution by MOD**

If a strategy can not be created and broadcasted using the UDS because the strategy type is not accepted by Bourse, or because the approved participant does not have the capability to create and place orders on a UDS, the approved participant may submit a strategy order 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 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 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 the rotation;

(iii) For strategies involving 100 contracts or more per leg, all qualifying market makers 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 can not 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 a cross transaction on a strategy involving options – 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.*

LIST OF ACCEPTABLE STRATEGIES FOR UDS

| STRATEGY | EXAMPLE |
|---|---|
| CALL SPREAD | Buy Call – Sell Call |
| PUT SPREAD | Buy Put – Sell Put |
| STRADDLE | Buy Call – Buy Put same expiry month and same strike price |
| STRANGLE | Buy Put – Buy Call same expiry month with different strike price |
| SYNTHETIC | Buy Call – Sell Put same strike price and same expiry date |
| SYNTHETIC WITH SPLIT STRIKES | Buy Call – Sell Put same expiry date and different strike price |
| 1X2 RATIO CALL SPREAD | Buy 1 Call – Sell 2 Calls |
| 1X2 RATIO PUT SPREAD | Buy 1 Put – Sell 2 Puts |
| 1X3 RATIO CALL SPREAD | Buy 1 Call – Sell 3 Calls |
| 1X3 RATIO PUT SPREAD | Buy 1 Put – Sell 3 Puts |
| 1X4 RATIO CALL SPREAD | Buy 1 Call – Sell 4 Calls |
| 1X4 RATIO PUT SPREAD | Buy 1 Put – Sell 4 Puts |