☒	Trading – Interest Rate Derivatives	☒	Back-office - Options
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CIRCULAR
October 24, 2012

SELF-CERTIFICATION

IMPLEMENTATION OF BULK QUOTE MANAGEMENT
AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OF TRADES
ADDITION OF ARTICLES 6400 AND 6401 TO RULE SIX

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved the amendments to the Procedures for the Cancellation of Trades and the addition of Articles 6400 and 6401 to Rule Six of the Bourse in order to implement Bulk Quote Management ("**BQM**") for orders submitted via the Bourse's bulk quote functionality. The Bourse wishes to advise Approved Participants that such amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

Amendments to Rule Six and to the Bourses' Procedures, which you will find enclosed, will become effective on **December 3, 2012**. Please note that amended versions of the rules and procedures of the Bourse will be available on the Bourse's website (www.m-x.ca).

For further information, please contact Gladys Karam, Director, Business Development Options, Financial Markets, at 514 871-7880 or at gkaram@m-x.ca.

Pauline Ascoli
Vice President, Legal Affairs, Derivatives
Bourse de Montréal Inc.

Circular no.: 138-2012

IMPLEMENTATION OF BULK QUOTE MANAGEMENT
AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OF TRADES
ADDITION OF ARTICLES 6400 AND 6401 TO RULE SIX

I. Overview

Bourse de Montréal Inc. (the "Bourse") intends to implement Bulk Quote Management ("BQM") for orders submitted via the Bourse's bulk quote functionality which is primarily, but not exclusively, used for the benefit of the Bourse's market makers.

To facilitate the implementation of BQM, the Bourse proposes to amend the Procedures for the Cancellation of Trades, and to introduce Articles 6400 and 6401, Bulk Quote Messages and Cancellation of Bulk Quote Orders, to Rule Six.

II. Definitions

Bulk Quote Messages: Bulk Quote Messages are individual messages that contain multiple orders. They are available to Approved Participants who are registered, or whose clients are registered in eligible programs (market makers, liquidity providers) as established by the Bourse (hereinafter Participants).

Sweeping: The execution of a large number of a Participant's orders for a particular instrument group.

Instrument group: An instrument group is defined by an underlying product and a product type. All options series with the same underlying are in the same instrument group. Similarly, all futures contracts with the same underlying – e.g. Ten Year Canada Government Bonds - are in a unique instrument group.

III. Detailed Analysis

A. Rationale for Proposed Changes

The Bourse offers, for cash options, a bulk quote functionality which enables Participants to send and update a large number of quotes on multiple series at the same time in one message, as opposed to having to send one quote per message. Bulk quotes are currently offered on equity, exchange traded funds, index and currency options and are currently used mainly by market makers. While bulk quotes are not currently offered on futures or options on futures, the Bourse anticipates adding futures and/or options on futures to the bulk quote functionality in due course.

Early in the implementation of bulk quoting, market makers experienced situations where one market maker's bulk quotes would trade against all of another market maker's bulk quotes. They requested a functionality that would prevent bulk quotes from interacting between themselves. The Bourse therefore put in place a system rule, called "anti-clobbering", that prevents an order derived from a bulk quote from trading against an order derived from another bulk quote.

As a further risk management measure for bulk quote providers, the Bourse's Procedures for the Cancellation of Trades ("Cancellation Procedures") was amended in December 2002 allow for the cancellation of multiple consecutive transactions, provided that four (4) or more transactions are executed against one market maker within a one second interval, and that the opposite sides of the transactions consist of another market maker (see Circular No. 166-2002 at http://www.m-x.ca/f_circulaires_en/166-02_en.pdf)

The current measures are not configurable by market makers. They are a relatively blunt instrument for managing the risks associated with bulk quoting – market risk, and the risk of multiple executions across multiple series of an option. In addition, both of these measures present operational and market quality issues. The anti-clobbering measures restrict one bulk quote from trading against another, sometimes resulting in locked markets where the bid and ask are at the same price and do not trade. The cancellation procedure is also problematic in that manual cancellations must be performed by Market Supervisors.

The Bourse therefore proposes to implement the BQM functionality to limit the occurrences of the issues described above, allow Participants to configure their own BQM parameters as per their risk management criteria, and greatly reduce the number of manual interventions executed by the Bourse with respect to the cancellation and adjustment of trades. The BQM functionality will provide Participants with enhanced and flexible tools to manage their risk from multiple executions across multiple series of options, and assist them in managing their market risk.

B. Proposed Changes

The BQM functionality offers three (3) levels of protections: a basic protection mechanism at the exchange level, an advanced protection that can be enabled at the Participant level and an enhanced protection that gives the Participants the flexibility to configure a series of parameters as per their risk management criteria.

1. Basic BQM functionality: configurable parameters

Maximum Number of Trades / Minimum volume: This requires the configuration of a maximum number of trades with a minimum volume for a given instrument group on which a Participant provides quotes. If the maximum number of trades with the minimum volume is reached before the Participant refreshes its quotes, the Participant's quotes on the specified instrument group are cancelled until such time as the Participant sends new quotes for this instrument group. The counter for the maximum number of trades/minimum volume is always reset to zero upon quote reception.

Maximum number of trades = Count (Trade where volume ≥ Minimum Trade Volume)

Purpose: Protect Participants against invalid quotes and minimize Participants exposure during fast market conditions.

All Participants using bulk quotes benefit from the basic BQM Protection of maximum number of trades/minimum volume.

2. Advanced BQM functionality: configurable parameters

Advanced BQM Protection is similar to Basic BQM Protection, but requires an additional message from the Participant in order to signal that he is ready to begin quoting again. If the Participant wishes to use the Advanced BQM Protection he must send a message specifying the type of protection (Advanced). If the BQM protection is triggered all incoming quotes from this Participant are rejected until he re-sends a message advising he is ready to quote again. If at the beginning of the day no Advanced BQM protection message is sent, the system will assume the Participant requested the basic protection.

3. Enhanced BQM protection: configurable parameters:

1. <u>Maximum Volume:</u> cumulates all traded volumes, per instrument group, for the same Participant.

Maximum Volume = ∑ Volume

<u>Purpose:</u> Protect Participants against invalid quotes and minimize Participants exposure during fast market conditions.

2. <u>Maximum Value:</u> cumulates the dollar value of all trades, per instrument group, for the same Participant.

Maximum Value = ∑ (Volume x Price x Contract Size x Tick Value)

<u>Purpose:</u> Protect Participants against invalid quotes and minimize Participants exposure during fast market conditions.

3. <u>Delta Volume:</u> calculates underlying position creation, per instrument group, for the same Participant.

Option Delta Volume =

Absolute ∑ ((Long Call Volume + Short Put Volume) – (Short Call Volume + Long Put Volume))

<u>Purpose:</u> Protect Participants against invalid quotes and minimize Participants net position exposure.

4. <u>Delta Value:</u> determines the net inflow or outflow of money, per instrument group, for the same Participant.

Option Delta Value =

Absolute ∑ (Long Volume x Price x Contract Size x Tick Value)

- (Short Volume x Price x Contract Size x Tick Value)

<u>Purpose:</u> Protect Participants against invalid quotes and minimize Participants exposure during fast market conditions.

5. Time Interval: represents the maximum number of seconds between a trade and its previous trade. If the number of seconds between trades is greater than the time interval, the following BQM counters are reset: Maximum Volume, Delta Volume, Maximum Value and Delta Value.

Purpose: Protect Participants against invalid quotes and minimize Participants exposure during fast market conditions.

Participants can choose whether or not to use these enhanced parameters.

All default controls in the basic and enhanced protection are set by the Bourse for a specific instrument group. These parameters are applicable to all Participants of this instrument group unless they provide their own configuration The parameters can be different from one instrument group to another and when provided, the parameters set by the Participant override the default controls set by the exchange. Participants willing to customize the desired level of protection will not be able to set up levels of protection below the minimums configured by the exchange.

If the default parameters or the more stringent parameters set by the Participant are triggered, the Participant's unprocessed quotes in the bulk quote message and all quotes currently left in the instrument book are cancelled by the system. The participant can then send new quotes on that instrument group at any time; and those quotes will not be cancelled by the system unless the default parameters or the more stringent parameters set by the participant are reached again.

Consultations will be held with the Bourse's Participants to determine the appropriateness of these parameter settings and as such the default parameter settings may be adjusted over time.

BQM at Pre-Opening

The BQM functionality also offers protections against an incoherent market opening which will result in multiple trades against Participants that are inconsistent with the Theoretical Opening Price. These pre-open BQM functionalities are distinct from the bulk quote management parameters that are available for Participants, and the parameters are only configurable by the Bourse.

There are 3 different protection counters that protect Participants against an incoherent market opening:

1) Max Traded Instrument per instrument group: When an instrument group opens, if the number of instruments that will trade is over the parameter value, the instrument group stays in current state and does not open;

2) Max Volume per instrument group: When an instrument group opens, if the sum of volume for all instruments is over the parameter value, the instrument group stays in current state and does not open;

3) Quote crosses Theoretical Opening Price ("TOP") by a certain value: At the opening, if a quote price crosses the TOP beyond a (K + P%) threshold (i.e. price-TOP > K + CTO*P%), then the instrument is reserved (and does not open) and must be manually reopened later by the Market Operations Department, (K (constant) and P (percentage)). These controls are effective only for a scheduled opening and will not apply to a manual market open.

Purpose: Protects Participants against wrong prices during market opening, Minimize trade cancellations and adjustments required due to an incoherent market opening.

C. Description of Impacts

The implementation of BQM will assist Participants in managing the risks associated with bulk quoting. It will also enable the removal of the anti-clobbering measures which restrict one order sent through bulk quotes from trading against another order sent through bulk quotes. This will eliminate the occurrences of locked markets and ensure that each order, whether it has been derived from bulk quotes or not, is executed at the best possible price. BQM will also reduce the number of errors made by Participants, and the impact of such errors on the market.

This functionality will also reduce the need for manual intervention by Market Supervisors to cancel trades resulting from the sweeping of bulk quotes by regular orders, as it allows Participants to protect their order books to the degree that is most appropriate for their specific risk profiles and trading needs by configuring the BQM functionality's parameters accordingly. Furthermore, BQM should improve market quality by enabling more effective risk management on the part of those quoting on the Bourse's markets, encouraging them to post more bids and offers at greater size.

Finally, through bulk quote management in the pre-open, BQM will contribute to a reduction of manual intervention in the pre-open, and greater accuracy of opening prices.

D. Benchmarking

While this benchmarking section makes reference to Market Maker Protection models for market makers, rather than Bulk Quote Management models for Participants, the two types of functionalities fulfill exactly the same purpose; to protect those institutions or individuals who provide liquidity from having their orders swept, whether intentionally or unintentionally.

Exchange	Market Maker Protection Models (MMP)
BOX Options Exchange	BOX allows market makers to establish triggering parameters for when the market maker, during a specified time period, trades: (a) A specified number of contracts in the aggregate across all series of an options class (Maximum Total Volume); (b) A specified absolute dollar value of contracts bought and sold in a class (Maximum Total Value); (c) A specified number of contracts in a class of the net between (i) calls purchased plus puts sold, and (ii) calls sold and puts purchased (Maximum Delta Volume); or (d) A specified absolute dollar value of the net position in a class between (i) calls purchased and sold, (ii) puts and calls purchased; (iii) puts purchased and sold; or (iv) puts and calls sold (Maximum Delta Value). The specified time period will begin for an options class when a transaction occurs in any series in the selected class. When a market maker has traded the value or volume of an options class as specified in the Automatic Quote Cancellation enabling message, during the specified time period, BOX will cancel such market maker's quotes in all series of the specified options class(es).

Eurex	Eurex's MMP Tool is aimed at preventing too many simultaneous trade executions on quotes provided by a market maker, offering additional control of the market risk. The basic principle can be envisioned as a counter, counting the number of traded contracts per product on market maker's quotes within a time frame of some seconds that the market maker can define. Once the time has elapsed the counter is set to zero and restarted. If the counter reaches or exceeds a threshold level defined by the market maker, all remaining quotes are put on hold. Market makers can define three threshold values in the counter, Volume: total number of contracts, Vega: absolute number of contracts purchased reduced by the number of contracts sold and Delta: absolute number of (long calls + short puts) - (short calls + long puts).
Nasdaq OMX	NASDAQ OMX's MMP functionality has been designed to prevent too many simultaneous trade executions on quotes provided by a MM. The MMP functionality allows the market maker to automatically pull all quotes in a certain underlying if more than a configurable number of contracts have been traded off during a configurable amount of time. MM will have the possibility to use the MMP functionality for all underlyings where the functionality is available (i.e., not only in underlyings where the market maker has obligations). The MMP parameters are configurable by the MM and are set on member level. The MM can update (change or disable) the parameters intra-day. The parameters possible for a MM to set for an underlying are Exposure Limit Time Interval, Quotation frozen time, Quantity Protection, Delta Protection and Include Futures. After an update of the parameters, the new parameters will be broadcasted to the MM. To prevent that the "Quantity Protection" and "Delta Protection" parameters are set too low by the market maker (the MMP is triggered too often), there will be a predefined minimum quantity parameter. The minimum quantity will be specified per underlying and the value will apply for both the "Quantity Protection" and "Delta Protection" parameters.
Borsa Italiana	The MMP functionality is a cutting edge solution featured by the highest level of granularity and flexibility. An intermediary can set up to 4 parameters before market opening, with the ability to change them during the trading session: Exposure limit time: time interval within which the contract thresholds mentioned above have to be exceeded, Frozen quotation time: the number of seconds during which mass quotation and single quote transactions are not allowed, Volume protection quantity: is calculated as the amount of standard contracts traded-off on the quotes placed on derivatives based on the underlying and Delta protection quantity: absolute value of the sum of [(bought call option contracts + sold put option contracts) – (sold call option contracts + bought put option contracts)].

	Delta Protection and Volume Protection can be activated at the same time. Protection parameters are set at an underlying level (options and futures based on the same underlying) with day-validity. Only traded quotes (not single orders) are counted for determining the protection threshold breach.

IV. Proposed Regulatory Amendments

A. Amendments to the Procedures

The Bourse proposes to eliminate Section 5.7 of the Procedures for the Cancellation of Trades, entitled Multiple Market Maker Transactions on Equity and Index Options.

As BQM will protect all Participants using Bulk Quotes, including market makers, from having multiple consecutive transactions executed against them, there will no longer be a need for the Market Supervisor to cancel multiple consecutive transactions executed against a market maker by one or more market makers during a one second interval.

B. Addition to the Rules

The Bourse proposes to introduce Articles 6400 and 6401 to Rule Six, entitled Bulk Quote Messages and Cancellation of Bulk Quote Orders, allowing for the automated cancellation of orders in bulk quotes, as triggered by the Bulk Quote Management parameters, or the parameters set by the Participant, in the BQM functionality.

V. Public Interest

Implementation of BQM will increase the accuracy of opening prices and reduce the necessity for adjustments and cancellations of transactions by the Bourse. BQM will also eliminate instances of locked markets, which are detrimental to the market and erode market confidence; as well as a reduction in the number of errors made by Participants, and the impact of such errors on the market.

BQM should also improve market quality by providing Participants posting bids and offers with more effective risk management tools, which in turn should encourage them to post more bids and offers at greater size.

VI. Process

The proposed modifications, including this Analysis, are to 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.

VII. References

BOX – New MMP Features
http://www.bostonoptions.com/f_circulars/Info_Circ_2011-010_New_Market_Maker_Protection_Features.pdf

EUREX – Risk Protection for Market Makers in Options
http://www.eurexchange.com/trading/market_model/market_making/risk_protection_en.html

NASDAQ OMX – MMP Model
http://nasdaqomx.com/digitalAssets/71/71976_market_maker_protection_model_-_equity_derivatives_1.1.pdf

Borsa Italiana – MMP
http://www.borsaitaliana.it/derivati/archiviopdf/homepage/flyermmprotection_pdf.htm

VIII. Default Bulk Quote Management Parameters

The Bourse's Market Operations Department will issue an Operational Notice detailing the relevant default Bulk Quote Management parameters on each security for which bulk quotes are offered.

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
Government of Canada Bond Futures - Regular strategy orders	40 basis points 20 basis points
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX Indices - 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	 $0.10 $0.25 $0.50 $0.75
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 $0.50
Canadian Share Futures Contracts Regular and extended sessions: Early session:	 1. 0.50$, 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 MULTIPLE MARKET MAKER TRANSACTIONS ON EQUITY, 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 market maker.~~

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~~5.7 DECISION

A decision to cancel or to refuse to cancel a transaction subject to Section 5.6 ~~or 5.7~~ 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.

Section 6365 - ~~6399~~6401
Electronic Trading of Derivatives Instruments Traded on the Bourse

6400 Bulk Quote Messages
(03.12.12)

Bulk quote messages are individual messages that contain multiple orders.

Bulk quote messages are available to approved participants who are registered, or whose clients are registered, in eligible programs as established by the Bourse.

Eligibility criteria for registration in these programs, and the products that qualify for bulk quote messages, will be defined by the Bourse.

6401 Cancellation of Bulk Quote Orders
(03.12.12)

Orders submitted to the Bourse via a bulk quote message may be cancelled by the electronic trading system of the Bourse should the parameters of the Bulk Quote Management functionality be triggered.

The Bulk Quote Management parameters configured by the Bourse will take precedence, unless the approved participant configures more restrictive parameters for the Bulk Quote Management functionality for their own bulk quote messages.

The following parameters can be configured by approved participants through the Bulk Quote Management functionality:

a) Maximum Number of Trades / Minimum traded volume
b) Maximum traded Volume
c) Delta maximum Volume
d) Maximum traded Value
e) Delta maximum Value
f) Time Interval