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		<input type="checkbox"/>	MCeX

CIRCULAR
October 11, 2011

REQUEST FOR COMMENTS

AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OF TRADES

AND

AMENDMENTS TO ARTICLE 6303 OF RULE SIX OF THE BOURSE DE MONTRÉAL

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the amendments to the *Procedures for the Cancellation of Trades* (the “**Cancellation Procedures**”) and to the article 6303 of Rule Six (“**Rule Six**”) of the Bourse in order to clarify the terms applicable to the cancellation and adjustment of trades.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **November 10, 2011**. Please submit your comments to:

Mr. François Gilbert
Vice-President, Legal Affairs, Derivatives
Bourse de Montréal Inc.
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P.O. Box 61, 800 Victoria Square
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Circular no.: 156-2011

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

*Ms. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
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Appendices

For your information, you will find in appendices an analysis of the proposed amendments as well as the amended Cancellation Procedures and the amended article of Rule Six. 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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AMENDMENT TO ARTICLE 6303 OF RULE SIX OF THE BOURSE DE MONTRÉAL AMENDMENT TO THE PROCEDURES FOR THE CANCELLATION OF TRADES

Introduction

Bourse de Montréal inc. (the “**Bourse**”) hereby proposes to amend Article 6303 of the Rules (the “**Rules**”) of the Bourse and certain sections of the *Procedures for the Cancellation of Trades* (the “**Procedures**”). The Bourse proposes to amend the Procedures to clarify the terms applicable to the cancellation and adjustment of trades. The Bourse has noticed during the course of its operations a requirement to harmonize the Procedures and its related articles in the rules. Therefore, the Bourse would like to amend article 6303 and the Procedures to clarify and update the Rules and Procedures of the Bourse applicable to the cancellation and adjustment of trades.

I. DETAILED ANALYSIS

A. Rationale

1. Two Types of Events Leading to the Cancellation or Adjustment of Trades

Article 6381 of the Rules of the Bourse addresses trade cancellations and adjustments in two circumstances:

- Cancellations and adjustments in the event of errors in order entry
- Cancellation and adjustments of transactions that are deemed detrimental to the normal operation or quality of the market.

Article 6381(a) provides the Market Supervisor with the authority to cancel or adjust a trade that occurred following an input error, if an agreement to this effect is reached between the parties to the trade.

However articles 6303 and 6381(b) provide distinct standards with respect to the cancellation of trades that are not due to input errors.

- Article 6303 of Rule Six provides that “*if certain urgent events require it or if certain extraordinary market conditions exist, and in order to maintain a fair and equitable market for all participants, a **vice-president** or **senior vice-president** of the Bourse can validate, alter, disallow or cancel any trade and such trade will be validated, altered, disallowed or cancelled*”.
- Article 6381(b) of Rule Six provides that “the Bourse may at any time cancel or adjust a trade if it is judged to be detrimental to the normal operation or quality of the market or in any circumstance judged appropriate by a Market Supervisor”.

Article 6381 concludes by stating that these decisions are final and cannot be appealed.

Reference to the authority of the Market Supervisor in Article 6381(b) for the cancellation and adjustment of trades, and the requirement in Article 6303 that a Vice-President or Senior Vice-President cancels or adjusts trades, create inconsistency and uncertainty as to the correct application of the Rules.

This inconsistency in the rules is extended to the Procedures for the Cancellation of Trades. Paragraph 2: *Summary of the Related Rules*, of the Procedures provides that “*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*” This is in fact an inaccurate summary of the Rules, in that Articles 6381 to 6385 do not require the intervention of a Vice-President or Senior Vice-President, but entrust the cancellation and adjustment of trades to a Market Supervisor.

2. The Role of Market Supervisors in the Market Operations Department

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

Furthermore, given the 30 minute requirement in paragraph 5.8 of the Procedures stating that “*A decision to cancel or refuse to cancel will be rendered by a Market Supervisor within 30 minutes following the cancellation request*” it is not always possible to consult a vice president or senior vice president while at the same time respecting the time delay

Finally, the new organizational structure of the Bourse in place since August 2009, and specifically the Market Operations Department (“**MOD**”), is such that the MOD is now headed by a Senior Manager. The Senior Manager is usually a former market supervisor or an individual with equivalent experience with respect to derivative markets and is well placed in conjunction with market supervisors to make decisions with respect to cancellation and alterations of transactions deemed to be detrimental to the normal operation or quality of the market. Furthermore, given the fast paced nature of the market it is essential that the Bourse’s market supervisors be able to render decisions quickly and with the least amount of disruption to the market. Seeking approval of a vice president or a senior vice president compromises the market supervisors’ ability to do so. In keeping with these facts, the Bourse no longer deems it necessary to require a vice president or a vice president to make decisions regarding the cancellation or alteration of transactions

3. Increment Parameters for Derivatives Instruments Outright and Strategies Positions

The Bourse proposes to add increment parameters for strategies to the Procedures. As for the increment parameters for outright positions, increment parameters for strategies positions must be implemented in the Procedures.

A strategy trade is implemented by executing one or more derivative instrument positions simultaneously. The strategy permits the Approved Participant to simultaneously execute transactions in two or more expiry months without being exposed to execution risk; the risk of not being able to execute the strategy at the desired price differential, or within a desired time frame.

First, the Bourse proposes to add increments applicable to the establishment of the No Cancel Range (“**NCR**”) for Government of Canada Bond Futures Strategies at 20 basis points. This level would be consistent with the NCR for Government of Canada Bond Futures contracts at 40 basis points in that the strategies are less volatile than the outright contracts and therefore, the Bourse deems 20 basis points as an acceptable range.

Second, the Bourse also proposes to add increment parameters for existing strategies for the 30-Day Overnight Repo Rate Futures (ONX). The increment parameters for the 30-day ONX have been established at 5 basis points for strategies positions.

Third, the Bourse also proposes to add increment parameters for existing strategies for the Futures Contracts on S&P/TSX Indices (SXF and SXM). The increment parameters for the SXF and SXM have been established at 5% of the increments for the outright month.

The Bourse in an effort to be more transparent proposes to add the aforementioned increments to section 5.3 of the Procedures.

B. Benchmarking

1. Cancellation and Adjustment of Trades by Market Supervisor

The following table describes the procedures in place at other derivative exchanges for the cancellation of trades. This table demonstrates that the common industry practice does not require the approval of a member of upper management to approve the validation, cancellation, or alteration of a transaction deemed to be detrimental to the normal operation or quality of the market.

Exchanges	Australian Securities Exchange (ASX)	Chicago Mercantile Exchange (CME)	NYSE Liffe
Products	90 Day Bank Bill Futures 10 Year Treasury Bond Futures	Eurodollar Futures 10 year U.S. Treasury note Futures	3 month Euribor Long Gilt Futures
Procedure	<ol style="list-style-type: none"> 1. The Exchange may cancel trades under this Rule whether or not it has received a request from a Participant under Rule (3200) - Request for Cancellation 2. Trades Within the Mandatory Cancellation Range – If a trade has a price or within the MCR (Mandatory Cancel Range) as set out in Procedure 3200 it will be cancelled. 	This rule authorizes the Globex Control Center (GCC) to adjust price or cancel trades when such action in necessary to mitigate market disrupting events caused by the improper or erroneous use of the electronic trading system or by system defects.	In certain circumstances, the relevant Euronext Market Undertaking may determine that a trade has taken place at an unrepresentative price and may as soon as practicable, declare that trade invalid.

2. Increment Parameters for Derivatives Instruments Outright and Strategies Positions

The following table describes the increments in place at other derivatives exchanges for strategies positions.

	CME	ASX	NYSE EURONEXT
ONX	30 Day fed Funds 5 basis points	Australian 30 Day Inter Bank 5 basis points	1 Month Eonia 40% of the NCR of the outright Month
GOVERNMENT OF CANADA BOND FUTURES	10 Year Note 30/32 = 93.75 basis points	Australian 10 Year Bond 50 basis points	Medium Gilt 40% of the NCR of the outright Month
SXF	S&P 500 6 index points or 600 basis points	SPI 200 25 Points	FTSE 100 40% of the NCR of the outright Month

II. PROPOSED REGULATORY AMENDMENTS

1. Rule Six of the Rules of the Bourse

a) *Article 6303 Validation, alteration or cancellation of a trade*

The Bourse hereby proposes to amend article *6303 Validation, alteration or cancellation of a trade* of Rule Six of the Bourse such that a *Market Supervisor* has the authority to validate, alter, disallow or cancel any trade deemed to be detrimental to the normal operation or quality of the market.

2. Procedures for the Cancellation of Trades

a) Paragraph 2 *Summary of Related Rules*

The Bourse hereby proposes to amend paragraph 2 *Summary of Related Rules* of the Procedures such that a Market Supervisor has the authority to cancel transactions that are deemed detrimental to the normal operation or quality of the market and to provide for consistency between amended article 6303 and the Procedures.

b) Paragraph 5.1 *Detection and Delays*

The Bourse hereby proposes to amend paragraph 5.1 *Detection and Delays* of the Procedures such that it differentiates and elaborates on the circumstances that may warrant cancellation or adjustments of transactions and to establish consistency between article 6381 of the rules and the Procedures.

c) Paragraph 5.3 *Validation – No Cancel Range*

The Bourse hereby proposes to amend paragraph 5.3 *Validation – No Cancel Range* to add increment parameters for the following derivatives instruments strategies positions:

(i) 30-Day Overnight Repo Rate Futures (ONX)

The increment parameter for the 30-day overnight repo rate futures contract (ONX) have been established 5 basis points for strategies positions.

ONX	Regular Strategy orders	5 basis points
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(ii) Government of Canada Bond Futures (CGZ, CGF, CGB, LGB)

The increment for Government of Canada Bond Futures contracts is 40 basis points. Since the strategies are less volatile than the outright contracts the Bourse deems 20 basis points to be an acceptable range.

CGZ, CGF, CGB, LGB	Regular Strategy orders	20 basis points
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(iii) Futures Contracts on S&P/TSX Indices (SXF and SXM)

SXF and SXM	Regular Strategy orders	5% of the increments for the outright month
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d) Paragraph 5.4 *Trade Price Inside the No Cancel Range*

The Bourse hereby proposes to amend paragraph 5.4 *Trade Price Inside the No Cancel Range* to add precision with regards to the communication of the error notice and request to cancel of the error trade. These requirements must be completed within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

e) Paragraph 5.5 *Trade Price Outside the No Cancel Range*

The Bourse hereby proposes to amend paragraph 5.5 *Trade Price Outside the No Cancel Range* of the Procedures such that it specifies that the market supervisor will determine whether the trade price is within or outside the No Cancel Range and to enumerate the circumstances for which transactions will be cancelled or adjusted.

For clarity purposes, the Bourse proposes to include wording in the Procedures to the effect that the general rule shall be that a 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. However, in the following two circumstances, the trade will be cancelled by Market Operations:

1. Both parties to the trade have agreed to cancel the trade.
2. Both parties to the trade are retail investors.

Also, some precisions will be added to indicate that a decision to cancel or to 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.

f) Paragraph 5.6 *Other Situations Justifying the Cancellation of Trades*

The Bourse hereby proposes to amend paragraph 5.6 *Other Situations Justifying the Cancellation of Trades* of the Procedures such that it contains a provision for Market Freezes on the underlying instrument for which the Bourse has derivative instruments listed.

g) Paragraph 5.8 *Decision*

The Bourse hereby proposes to amend paragraph 5.8 *Decision* of the Procedures to specify that Market Supervisor will have to render a decision to cancel or to refuse to cancel a transaction subject to paragraphs 5.6 or 5.7 within 30 minutes following the communication of a cancellation request or detection by Market Operations.

III. OBJECTIVES AND CONSEQUENCES

The removal of the vice president or senior vice president requirement in both the Procedures and article 6303 of the Rules achieve the objective of better reflecting the current situation when cancelling transactions. Furthermore, it will make the Procedures and article 6303 consistent with the other related articles that deal with cancellation of transactions. Finally the proposed modifications will make it easier to respect the 30 minute requirement in making a decision outlined in the Procedures

The addition of increments for the strategies positions on the aforementioned products will increase the transparency of the Rules and Procedures of the Bourse applicable to the adjustments and cancellations of trades.

IV. PUBLIC INTEREST

The amendments to the Rules and Procedures of the Bourse will allow the Bourse to apply clear and consistent adjustment and cancellation procedures to the transactions concluded on the Bourse.

V. PROCESS

The proposed amendments to the Rules and Procedures of the Bourse are submitted for approval to the Rules and Policies Committee of the Bourse and will subsequently be submitted to the Autorité des marchés financiers (AMF) in accordance with the self-certification process and to the Ontario Securities Commission (OSC) for information.

VI. REFERENCES

CME Group, CBOT Rule Book, Rule 588. Trade Cancellations and Price Adjustments

<http://www.cmegroup.com/rulebook/CBOT/I/5/88.html>

NYSE Liffe Trading Procedures, Paragraph 3.7.2 – 3.7.3

<http://www.euronext.com/fic/000/059/181/591811.pdf>

ASX 24 Operating Rules Procedure, Procedure 3210 Subsections 1 & 2

http://www.asx.com.au/compliance/rules_guidance/asx/asx_24_procedures.pdf

VII. ATTACHED DOCUMENTS

Procedures for the Cancellations of Trades

Rule Six of the Bourse – Amended Article 6303.

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 ~~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.

PROCEDURES' LIMITATION 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

~~In the event of erroneous trades during~~ During such trading sessions, the Market Operations ~~department of the Bourse~~ Department of the Bourse ("Market Operations") will not establish a No Cancel Range. As a result, ~~such trades will not~~ during such trading sessions, no trade shall be adjusted by the Market Operations ~~department of the Bourse~~ 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 erroneous resulting trade. ~~In-Therefore, , an error trade identified as such case by a party to the trade will~~ and which both parties consent to cancel shall be cancelled by the Market Operations ~~department of~~ 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 ~~During~~ 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, ~~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.~~ For that given session ~~(orders, trading will only be allowed within the trading range. Orders~~ outside of ~~that the~~ trading range will not be accepted by the system). Should either the high or the low of ~~that the trading~~ range be reached, trading will only be allowed at that limit level ~~only~~ until the market re-aligns itself back within the trading range.

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

~~Market~~Approved participants have the responsibility to ~~identify-report trades resulting from an error trade to the Market Operations~~ without delay ~~erroneous trades~~. As soon as an ~~erroneous transaction error trade~~ resulting from an order entry error is identified by the approved participant, the approved participant must ~~advise~~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. ~~A Market Supervisor will then contact the counterparties to the trade~~ 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 order to reach an agreement within the 15 minutes that follow the execution of the 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 Department 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 ~~as prescribed by article 6381 of the Rules of the Bourse~~ 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~~ SPREAD 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~~ **Implied spread orders**: Orders generated by the implied pricing algorithm composed of ~~two or more legs, including spreads~~ regular orders, one order for each individual leg.

A ~~strategy~~ spread trade resulting from an implied ~~strategy~~ spread order is in reality ~~constituted from each of the individual legs regular outright orders~~ composed of two or more separate regular orders, one order for each individual leg. For the ~~purpose~~ purposes of this procedure, if an ~~erroneous~~ error trade ~~occurring~~ occurs on an implied ~~strategy~~ spread order, ~~the spread trade will be treated as if the strategy trade was~~ deemed to have been executed using ~~separate regular posted orders~~ for each individual leg ~~separately.~~

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an ~~erroneous strategy~~ error spread trade resulting from an implied ~~strategy~~ spread 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

~~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.~~ 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 ~~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
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
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
Equity, Currency, ETF and Index Options Price ranges:	
\$0.00 to \$5.00	\$0.10
\$5.01 to \$10.00	\$0.25
\$10.01 to \$20.00	\$0.50
\$20.00 up	\$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	\$0.25
\$1.00 up	\$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~~[error](#) trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless ~~the counterparty~~[both parties to the error trade agree](#) to the ~~erroneous trade has~~[cancellation](#).

~~Error trades that both parties have agreed to cancel it. Erroneous transactions, for which there has been consent between the parties to cancel, may~~ 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 ~~erroneous~~ trade is outside the No Cancel Range, then the Market Supervisor will endeavor to contact all parties involved in the transaction ~~will be contacted and advised~~ to advise them 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.~~

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 ~~erroneous~~ error trades is to minimize the impact for all market participants involved in the ~~erroneous transaction~~ 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 ~~TRANSACTIONS~~ TRADES

The Market Operations ~~Department of the Bourse~~ will review all circumstances surrounding a ~~transaction~~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 ~~could have to~~ 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 ~~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 [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 ~~transaction~~[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 ~~transaction~~[trade](#) can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.

Section 6301 - 6320
Restrictions on Trading

[...]

6303 Validation, alteration or cancellation of a trade

(10.10.91, 25.05.01, 24.04.09, ~~XX.XX.XX~~)

If certain urgent events require it or if certain extraordinary market conditions exist, and in order to maintain a fair and equitable market for all participants, a ~~market supervisor~~
~~vice-president or senior vice-president~~ of the Bourse can validate, alter, disallow or cancel any trade and such trade will be validated, altered, disallowed or cancelled.

These decisions are final and cannot be appealed.

In the case of a cancellation, the trade will have no standing whatsoever and shall be expunged from the records.

[...]