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CIRCULAR 161-17
November 14, 2017

REQUEST FOR COMMENTS

AMENDMENTS TO THE PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES OF BOURSE DE MONTREAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to the *Procedures for the Cancellation or Adjustment of Trades* (the “**Procedures**”). The Bourse wishes to harmonize its Procedures across all Bourse’s products and types of instruments. The following amendments will impact the cancellation increments for “strategy instruments” involving share futures.

Comments on the proposed amendments must be submitted on December 31, 2017 at the latest. Please submit your comments to:

M^c Alexandre Normandeau
Legal Counsel, Montréal Exchange & CDCC,
Office of the General Counsel
Bourse de Montréal Inc.
Tour de la Bourse
800 Victoria Square, P.O. Box 61
Montréal, Québec H4Z 1A9
Email: legal@tmx.ca

A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^c Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

Regulatory Amendment Process

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization 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, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).



**AMENDMENTS TO THE *PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT OF TRADES* OF
BOURSE DE MONTREAL INC.**

TABLE OF CONTENTS

I. SUMMARY	2
II. ANALYSIS	2
a) Background	2
b) Description and Analysis of Market Impacts	2
c) Comparative Analysis	2
d) Proposed Amendments	4
III. AMENDMENT PROCESS	5
IV. IMPACTS ON TECHNOLOGICAL SYSTEMS	5
V. OBJECTIVES OF THE PROPOSED AMENDMENTS	5
VI. PUBLIC INTEREST	5
VII. EFFICIENCY	5
VIII. PROCESS	6
IX. ATTACHED DOCUMENTS	6

I. SUMMARY

Bourse de Montreal Inc. (the “Bourse”) intends to harmonize its *Procedures for the cancellation or adjustment of trades* (the “Procedures”) across all Bourse’s products by ensuring uniform rules and coverage of all Bourse’s products and types of instruments.

II. ANALYSIS

a) Background

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.

b) Description and Analysis of Market Impacts

In order to determine whether a trade should be cancelled or not, the Bourse has established No Cancel Ranges which “is defined as the price interval within which a trade shall not be cancelled outright or adjusted by the Market Operations”. The Procedures set out what the No Cancel Ranges are for the Bourse’s products.

According to the Procedures, to establish the No Cancel Range, Market Supervisors will first 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. Once the acceptable market price is determined, then Market Supervisors will Apply (add and deduct) the price increments to the acceptable market price as prescribed by the Procedures.

The Procedures are intended to provide increments to be applied on all products listed on the Bourse and all types of instruments on each product: “outright instruments” represented by one single futures contract and “strategy instruments” represented by more than one futures contract.

c) Comparative Analysis

Comparative analysis among MX futures contracts

The following table (Table 1) summarizes the prescribed increments for all MX futures contracts and for the two types of instruments (“outright” and “strategy”). For the products and instruments where the procedures specify the corresponding increment, the cell indicates “Specified”. The review has identified that the Procedures cover all transaction sizes for all transaction types (outright and strategies) for all products, with the exception of “strategy” instruments on Share Futures contracts (marked with the status “Not specified”).

Table 1: MX futures contracts - Coverage of increments for transaction cancellation	Outright	Strategies
Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX): (all quarterly and serial months)	Specified	Specified
Thirty-Day Overnight "Repo" Rate Futures Contracts (ONX): (all quarterly and serial months)	Specified	Specified
Overnight Index Swap (OIS): (all quarterly and serial months)	Specified	Specified
Two-Year Government of Canada Bond Futures (CGZ) (all quarterly and serial months)	Specified	Specified
Five-Year Government of Canada Bond Futures (CGF) (all quarterly and serial months)	Specified	Specified
Ten-Year Government of Canada Bond Futures (CGB) (all quarterly and serial months)	Specified	Specified
30-Year Government of Canada Bond Futures (CGB) (all quarterly and serial months)	Specified	Specified
Futures Contracts on S&P/TSX Indices:	Specified	Specified
Futures Contracts on the FTSE Emerging Markets Index:	Specified	Specified
Futures Contracts on Canada Carbon Dioxide Equivalent (CO2e) Units:	Specified	Specified
Futures Contracts on Canadian Crude Oil:	Specified	Specified
Canadian Share Futures Contracts:	Specified	Not specified

Specified = MX procedure specifies the increment for the "no cancel range" interval

Not specified = MX procedure does NOT specify the increment for the "no cancel range" interval

Comparative analysis among similar foreign-listed Share Futures contracts

The international benchmarking for cancellation increments for "strategy instruments" of Share Futures focuses on ONE Chicago, the only North-American comparable exchange which lists Share Futures on single stocks, ETFs and Trust Units. The following table (Table 2) shows a comparison between the cancellation increments of ONE Chicago and MX:

Table 2: Share Futures - Cancellation range increments				
Exchange	Futures price	Instrument type		Strategy/ outright ratio
		Outright	Strategy	
ONE Chicago	\$0 to \$25	1% of price	0.25% of price	1 / 4
	\$25 to \$100	1% of price	0.25% of price	1 / 4
	over \$100	1% of price	0.25% of price	1 / 4
MX	\$0 to \$25	\$0.50	Not specified	N/A
	\$25 to \$100	\$1.00	Not specified	N/A
	over \$100	1% of price	Not specified	N/A

The comparison shows that the ratio between the cancellation increments for strategies and for outright is 1 / 4.

d) Proposed Amendments

The Bourse's proposal calls for the following amendments to the wording of the table included at point 5.3 of the Procedures, Share Futures:

Amendment	Rationale
Add "Regular strategy orders: 1) \$0.12, if the acceptable market price of these futures contracts is less than \$25; 2) \$0.25, if the acceptable market price of these futures contracts is equal to or higher than \$25 but less than \$100; 3) 0.25% 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;	The proposed cancellation ranges will result in a Strategy/Outright cancellation range ratio ($\frac{1}{4}$) similar to that on One Chicago, as discussed above. The Bourse considers these cancellation ranges to be reasonable, based on the specificities and behaviour of the Bourse's Share Futures market.
Eliminate the mention "Regular and extended sessions:"	Extended sessions are already covered under point 4.2 of the Procedures: "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."
Eliminate the mention "Early session: 5% of the acceptable market price of these futures contracts";	The cancellation ranges for the Early Session are already specified at point 4.3 ("Early session no cancel range") of the same Procedures.

The resulting cancellation increments are shown in the following table:

Table 3: Share Futures - Proposed cancellation range increments				
Exchange	Futures price	Instrument type		Strategy/ outright ratio
		Outright	Strategy	
ONE Chicago	\$0 to \$25	1% of price	0.25% of price	1 / 4
	\$25 to \$100	1% of price	0.25% of price	1 / 4
	over \$100	1% of price	0.25% of price	1 / 4
MX	\$0 to \$25	\$0.50	\$0.12	1 / 4
	\$25 to \$100	\$1.00	\$0.25	1 / 4
	over \$100	1% of price	0.25% of price	1 / 4

III. AMENDMENT PROCESS

A review of the Procedures revealed that No Cancel Ranges for strategies on Share Futures needed to be adopted.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed amendment will not have any technological impact given the Procedures are applied by Market Supervisors and have no technological component.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS

The Bourse intends to harmonize its Procedures across all Bourse's products by ensuring uniform rules and coverage of all Bourse's products and types of instruments.

VI. PUBLIC INTEREST

The proposed amendments are not contrary to public interest. The Procedures should provide for cancellation ranges specific to Share Futures strategy instruments considering that market participants are currently allowed to execute strategy instruments on Share Futures.

VII. EFFICIENCY

The proposed amendment of the cancellation increments is expected to enhance the financial efficiency of the market participants and maintain unchanged the efficiency of the markets.

Financial efficiency

As mentioned, a "strategy instrument" represents several futures contracts while an "outright instrument" represents one single futures contract. However, on the market, a "strategy instrument" is quoted with a single price, for the whole strategy. Therefore, in the case of the cancellation of a "strategy instrument", the cancellation should result in the correction of one

single incorrect price - the price of the “strategy instrument”. As explained earlier, currently the Procedures do not look at the whole strategy, but rather to each leg of the strategy individually. By prescribing a cancellation range for the “strategy instrument” as a whole, the proposed amendment will allow the correction of a single incorrect price, as opposed several incorrect prices of the “outright instruments” composing the strategy individually. By adjusting the price of the strategy as opposed to each leg individually, the amendment will reduce the operational risk of the market participants and enhance their financial stability.

Market efficiency

The market efficiency is expected to remain unchanged, as such transactions can be (and are) cancelled also under the current procedures, but as a “series” of transactions on “outright positions”.

VIII. PROCESS

The proposed amendments, including this analysis, must 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 purposes.

IX. ATTACHED DOCUMENTS

Proposed amendments to the Procedures.

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
Two-Year Government of Canada Bond Futures (CGZ) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Five-Year Government of Canada Bond Futures (CGF) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Ten-Year Government of Canada Bond Futures (CGB) - Regular strategy orders	40 basis points 20 basis points
30-Year Government of Canada Bond Futures (LGB) - Regular strategy orders - Implied Strategy orders	40 basis points 40 basis points Sum of strategy's individual legs' increments
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX Indices and on the FTSE Emerging Markets Index - 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:	
Below \$2.00	\$0.25
\$2.00 to \$5.00	\$0.40
Above \$5.00 to 10.00\$	\$0.50
Above \$10.00 to \$20.00	\$0.80
Above \$20.00 to \$50.00	\$1.00
Above \$50.00 to \$100.00	\$1.50
Above \$100.00	\$2.00
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

DERIVATIVE INSTRUMENT	INCREMENT
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
Canadian Share Futures Contracts - Regular strategy orders	1. 0.12\$, if the acceptable market price of these futures contracts is less than 25\$; 2. 0.25\$, if the acceptable market price of these futures contracts is equal to or higher than 25\$ but less than 100\$; 4-3. 0.25% 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\$.
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 DECISION

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

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