Bourse de Montréal Inc.

☒	**Trading – Interest Rate Derivatives**	☒	**Back-office - Options**
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☒	**Back-office – Futures**	☒	**Regulation**
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November 4, 2008

EQUITY AND INDEX OPTIONS

MODIFICATIONS TO PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS AND TO ARTICLE 6380 OF THE RULES OF THE BOURSE

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) and the Autorité des marchés financiers (AMF) approved modifications to the Procedures applicable to the execution of cross transactions and the execution of prearranged transactions and to article 6380 of the Rules of the Bourse.

These modifications will allow market participants to execute cross or prearranged transactions (CPAT) on equity option orders for 100 contracts or more or index option orders for 50 contracts or more in 0 seconds. However, in order to execute an equity or index option CPAT, market participants must ensure that all existing orders in the central order book, regardless of the type of orders, which are at limit prices better than or equal to the CPAT price are executed before completing such transaction.

All market participants, who execute equity option CPAT orders for less than 100 contracts or index option CPAT orders for less than 50 contracts, must display the order for 5 seconds before executing the CPAT. Additionally, market participants will only be able to execute CPAT at price increments established by the Bourse.

The modifications to these procedures and to article 6380 of the Rules of the Bourse will be effective on Monday, November 10, 2008. You will find attached the updated Procedures applicable to the execution of cross and prearranged transactions and the amended article 6380 (3).

Circular no : 211-2008
Amendment no : 009-2008

The regulatory modifications discussed in this circular were subject to a request for comments published by the Bourse on May 29, 2007, Circular No. 089-2007. Following publication of this request for comments, the Bourse received a number of comment letters. As required by the AMF when implementing a regulatory amendment, the Bourse must publish a summary of the comments received as well as the response of the Bourse to these comments. You will therefore find in the Appendix attached to this circular the said summary as well as the Bourse's responses to the comments received.

For additional information, please contact Market Operations (options) at the following toll-free number 1-888-693-6366 or at 514 871-7871.

Joëlle Saint-Arnault
Vice-President, Legal Affairs

PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS

In accordance with the provisions of article 6380 of the Rules of Bourse de Montréal Inc. (the Bourse) regarding the execution of cross transactions and prearranged transactions, the following are the eligible products, the prescribed exposure time delays between the input of two orders and the minimum quantity thresholds.

ELIGIBLE PRODUCTS	PRESCRIBED TIME DELAY	MINIMUM QUANTITY THRESHOLD
Three-month Canadian Bankers' Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Thirty-day Overnight "Repo" Rate Futures Contracts (ONX):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Government of Canada Bond Futures Contracts:		
All expiry months and strategies	5 seconds	No threshold
S&P Canada 60 Index Futures Contracts (SXF):		
All expiry months	0 second	≥100 contracts
All expiry months and strategies	5 seconds	<100 contracts
Carbon Dioxide Equivalent (CO_2e) Units Futures Contracts:		
All expiry months and strategies	5 seconds	No threshold
Options on Three-month Canadian Bankers' Acceptance Futures Contracts (OBX):		
All expiry months and strategies	0 second	≥250 contracts
All expiry months and strategies	5 seconds	< 250 contracts

ELIGIBLE PRODUCTS	PRESCRIBED TIME DELAY	MINIMUM QUANTITY THRESHOLD
Equity and Currency Options		
All expiry months	0 second	≥100 contracts
All expiry months	5 seconds	< 100 contracts
Index Options		
All expiry months	0 second	≥50 contracts
All expiry months	5 seconds	< 50 contracts

Chronological priority of orders must be respected with regards to the posting of the originating order first, when executing a cross or prearranged transaction.

The market participant must ensure that all existing orders in the central order book, regardless of the type of orders, which are at limit prices better than or equal to the cross or prearranged transaction price are executed before completing such transaction.

Equity Options, Index Options and Currency Options Contracts

Cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

Procedure with a prescribed time delay for a quantity smaller than the eligible quantity threshold

A market participant wishing to execute a cross or a prearranged transaction must enter the order into the trading system for the total intended transaction quantity. The participant must then respect a delay equal to the prescribed time delay before executing an offsetting transaction on the residual quantity.

The **residual quantity** is the portion of the original quantity remaining after orders entered in the book with limit prices better than or equal to the intended transaction price have been filled. If no orders have been executed, the residual quantity is equal to the original intended transaction quantity.

Procedure without a prescribed time delay for a quantity equal to or greater than the eligible quantity threshold

If a market participant has a cross or prearranged order between the bid and ask:

- the participant can use a specific system function to enter a zero-second cross; or
- the participant can enter one side of the order and immediately trade against it if he wishes that the trade be executed directly on the market (with the possibility of execution risk).

Note: The bundling of orders to meet the admissible minimum quantity threshold is not permitted.

Transactions with a 50% guaranteed minimum

If a market participant wishes to execute a cross or a prearranged transaction on an option strategy, he must contact a market official and provide details of the intended transaction: total quantity, price, side(s) of the transaction on which the approved participant is required to give priority.

Market makers will be permitted to participate on the transaction up to a total maximum of 50% of the quantity of the intended transaction.

The market participant will be permitted to execute the transaction for the remaining quantity (a minimum of 50% plus any quantity not taken of the 50% that had been offered to the market makers.)

MISCELLANEOUS

Eligible products, their respective minimum quantity thresholds and time delays will be modified from time to time in order to take into account the evolution of the trading environment and operational practices of the Bourse. A circular will be issued by the Bourse every time a modification or revision is made to either one of these criteria.

6380 Prenegotiation Discussions, Cross Transactions, Prearranged Transactions and Block Trades
(25.09.00, 24.09.01, 29.10.01, 31.01.05, 10.11.08)

For the purpose of this article, the terms hereunder are defined as follows:

(…)

3) Prearranged Transactions

A prearranged transaction is considered having occurred when one or more approved participants engage in prenegotiation discussions in order to agree on the terms of a transaction before entering the orders in the electronic trading system of the Bourse.

Execution of cross transactions and prearranged transactions are permitted by the Bourse when:

i) they are on eligible securities or derivative instruments;

ii) the orders are for a quantity equal to or greater than the minimum quantity threshold established for that eligible security or derivative instrument;

iii) the prescribed time delay between the input of an order and its opposite side order is respected;

iv) the transactions are executed in accordance with the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.

The eligible securities or derivative instruments, the prescribed time delays and the minimum quantity thresholds are determined by the Bourse and published in the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.

It is forbidden to use the hidden quantity functionality of the electronic trading system of the Bourse to execute a cross transaction or a prearranged transaction.

COMMENTS RELATED TO PROPOSED AMENDMENTS TO ARTICLE 6380 OF THE RULES OF BOURSE DE MONTRÉAL INC.
PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PRE-ARRANGED TRANSACTIONS

Comments Author	Comments	Reply to comments
RBC Capital Markets (RBC-MC)	RBC CM acts as market maker and market trader (principal and agency trading) therefore, they presented their comments from two vantage points. **Section D – Proposed Procedures:** **1. Procedure for quantity smaller than the minimum quantity threshold of the proposed changes** RBC CM Market Makers have less concern with the prescribed time delay moving from 30 seconds to 5 seconds for orders under the minimum quantity threshold, including the reduction to 100 contracts as the minimum quantity threshold. However, RBC-CM considers 5 seconds to be a very short period of time and suggests that a delay of 10-15 seconds may be more practical as per the previous proposal. While this segment of the market is not of major importance to the RBC CM Equity Structured Products Group, which is focused on institutional client option trades, the Group agrees in principle to the proposed changes. **2. Procedure for quantity equal to or greater than the minimum quantity threshold** RBC-CM Market Makers are concerned with these proposed changes. RBC-CM recognizes that this initiative is inherently difficult and the ramifications will be different for each business group and segment of the market. The ability to host a truly competitive auction market is complex due to the dependency on the differing technologies utilized by participants and, in particular, the imbalance of information amongst the	The Bourse has to follow the evolution of the options markets worldwide and adjust the prescribed time delay for the execution of cross transactions to the standards followed by other exchanges. The norm in the U.S. markets is 3 seconds. The Chicago Board of Options Exchange (CBOE) has even recently reduced this delay to 1 second. The Bourse believes that the proposed 5 seconds delay is reasonable and that the majority of the market makers have the necessary technology available to react in less than the proposed prescribed time delay. As reflected by the divergence of the comments received, this initiative gave rise to different

Comments Author	Comments	Reply to comments
	players. From a macro level, the execution of these cross and pre-arranged transactions is a problem that was created when the options market moved to an electronic model in 2001. As there was no simple and efficient way to automate the processes amongst the market participants, the Exchange's market monitoring staff had to interface for execution, essentially adjudicating and allocating these types of transactions using indications available at the time of execution and making best efforts to contact the interested parties in a timely manner, by telephone. The expectation in 2001 was that an electronic solution could and would be developed within one year. There have been tremendous challenges with the underlying technology while moving towards an efficiently functioning electronic options market. The technological capacity and resources required to support the electronic options market model is substantial, especially for active market making and liquidity providers given the significant increase in market data streams. This is quite evident when working to manage the underlying equity markets and the derivative option markets, particularly when integrating multi-leg strategy components into these cross and pre-arranged transactions. These trades often depend on the available liquidity in the underlying equity market and the manual processes required to integrate between markets in an efficient manner. To a large extent, the ideal market model does not fit within the constraints of the current technology. This subject matter has been revisited and comments have been requested on a	reactions depending on the participants and their roles in the market. RBC-CM's comments are the proof that inside of the same firm, people can be for or against the proposed changes. Unlike the U.S. market, where 7 different market models exist, the Bourse can only have one market model to satisfy the expectations of all its participants. The electronic solution for crosses, prearranged transaction and strategies was not developed at the time of the migration to an electronic platform due to technological constraints on either side. With the market evolution and the increase of volume in crosses and prearranged transactions, the Bourse has the obligation to respond to the needs of the participants by automating these procedures as a first step within the context of a general review of the market model. It is to be noted that these changes only apply to "out-right crosses". These transactions are less complex than multi-segment strategies or strategies with a cash component that remain unchanged and will continue to be processed manually.

Comments Author	Comments	Reply to comments
	number of occasions over the years, indicating that it remains a difficult issue to resolve. In a true, competitive price discovery model, every market participant would have an opportunity to provide liquidity based upon the same disclosure of information, and would have the same opportunity to enter into a hedge on the same terms as the presenting party. Many transactions are more than one leg, often depending on the equity market level and that market's liquidity. As such, full and timely disclosure of information is essential to ensure fair allocation. The mismatch of both the information and the timing leads to differing, available hedge levels and liquidity and, therefore appetite for the trade. In some cases, with cross transactions and pre-arranged transactions, delta hedges were not disclosed or were presented at off-market levels as a result of timing constraints involved in executing the transactions, or as an attempt to discourage participation. It is possible that over the years the intent of the market model has been misconstrued. It appears that participants are choosing which side of the cross transaction to present to the market as the "guaranteed side". In our view, any requirement to present the client side and the controls around the true nature of the client side of the trade appears to have not been strictly enforced, and this may have diminished the original objective of the rule relating to crosses and pre-arranged transactions. In addition, market makers were often presented only with the opportunity to sell on their own bid or buy on their own offer because of this market anomaly. RBC-CM Market Makers consider this to be one of the reasons that the statistics underlying the current proposal are skewed in certain	The Bourse procedures are very clear in this regards : *"Chronological priority of orders must be respected with regards to the posting of the originating order first, when executing a cross or a prearranged transaction"*. It is the participant's responsibility to comply with these procedures. The Market Operations Department will refer to the Bourse's Regulatory Division all suspicious cases and all complaints regarding the non conformity with these procedures. The Regulatory Division will investigate the matter

Comments Author	Comments	Reply to comments
	aspects.	and, as the case may be, sanction the offender.
	RBC-CM Market Makers have some concerns over the fairness of this proposal for all market participants due to imbalance of information and the inability of current technology to post multiple depth markets. The proposal largely freezes out any participation in the transactions other than what is already disclosed on the market, even when the trade occurs outside the existing quoted market. RBC-CM is also somewhat concerned with the statistical analysis upon which the Bourse's conclusions are based, given the operation of the crossing methodology used in the past by the Bourse. This topic has been troubling for RBC-CM Market Makers, particularly with respect to the differing interests amongst market groups in terms of the market operations and the requirements for best execution of client trades. It is RBC-CM view that the proposed changes provide significant informational and tactical advantage to one segment of the market at the expense of others and may not lead to an optimal market.	The Bourse is working on a software modification that will enable market makers to post multiple depth markets. Unlike suggested by RBC CM comments, market makers will be able to participate in the transactions when the trade occurs outside the existing quoted market if they are quoting a better or equivalent price to the trade.
	RBC-CM Market Makers believe that a superior proposal would be to develop a better electronic model with multi-leg capabilities which would prompt, disclose and allow reaction time within certain auction limits and parameters for wider participation. This would include the opportunity to add liquidity outside of the current best market should the proposed execution price be outside of the current quote. RBC-CM believes that the Request for Quote ("RFQ") functionality is an important component in the process to create liquidity and price discovery when and where needed. This would address complaints from the buy side that the	The development of an electronic solution for multi-leg strategies is a project being now studied by the Bourse and will constitute the next step in the evolution of the market model. As for the Request for Quote (RFQ), it is a functionality that is less useful since it will not display all the information needed for a trade.

Comments Author	Comments	Reply to comments
	current process is cumbersome and inefficient for the execution of transactions in volatile markets, when hedges are moving while forcing all participants to react promptly or not at all. Regardless of the process that is chosen, heightened monitoring and enforcement are required, since the execution of option strategies (defined as anything other than a simple single option trade) constitutes a very large percentage of these types of transactions and is not due to change as a result of the currently tabled proposal.	
	The Equity Structured Products Group at RBC-CM welcomes the proposed changes in light of the following two key issues:	The objective of the proposed changes is to get rid of these inconveniences and inefficiencies.
	1) Reluctance of dealers to provide significant capital to facilitate Institutional Client trades given the uncertainty presented by current procedures – i.e. under the current system a dealer that agrees to take the other side of a client trade does not have certainty as to the quantity of the trade that it will be left with after market makers exercise their free option to accept or decline up to 50% of the trade. Importantly, the current model leaves market traders exposed to significant risks in situations where Market Makers participate on an opening client trade (e.g. client sells 2,000 ABC Calls, Market Makers buy 1,000, market trader buys 1,000), but are not there to supply liquidity on a cosing client trade (e.g.: client comes in to buy to close 2,000 ABC Calls, Market Makers do not participate, market trader is obligated to sell 2,000). In these scenarios, which occur frequently given the typically poor risk-	

Comments Author	Comments	Reply to comments
	reward dynamics of closing trades (often short term in nature, with very little premium/delta, or alternatively very high delta, if deep-in-the-money, and high exposure to risk on hedge, particularly in un-hedged client trades), the Market Trader is left short or long by the balance of the trade that the Market Maker participated on in opening transaction but not in closing transaction. This dynamic results in market trader being less likely to provide liquidity on opening trades due to risk of not being able to assist their clients on closing trades. 2) Feedback from Institutional Clients indicates that there is confusion surrounding how their trades are being executed on the exchange – i.e. when a client trades 1,000 contracts and the trade goes up in a combination of one cross of 500 and several other smaller crosses, this raises scepticism among clients. The explanation can be confusing to clients and response to the explanation has not been positive, as clients tend to feel that too much information is being transmitted to the market/dealers by this execution procedure. RBC-CM is embarking on a program to promote the Bourse's listed options trading to U.S. based Institutional Clients, and views this as a potential headwind to its success at attracting new business to the Montreal Exchange.	

Timber Hill Canada Co.	On behalf of Timber Hill Canada Co. (hereinafter "THC"), we have had the chance to review the Bourse de Montréal Inc.'s (hereinafter the "Bourse") proposed amendments to article 6380 of the rules of the Bourse and believe that they certainly represents a solid step toward improving the market structure and efficiency of trading on the Bourse. It appears to address THC's concerns that there are market makers in name only, who do little to improve liquidity while having equal rights to strategy trades and crosses.	
	However, THC noticed that ***this proposal makes no distinction between pure agency business and market maker facilitation trades.*** We can understand the rationale for zero-second crosses on customer crosses (as long as resting orders are subject to price protection); but once any market maker's involvement is required, then we believe the order should be exposed to the market. We start from the assumption that any automated price discovery or improvement mechanism can be accomplished in a matter of 3 seconds or less, in a manner that does not conflict with the needs of institutional customers and their brokers for timely executions.	The Bourse does not make a distinction between "pure" agency trades and market maker facilitation trades. The Bourse utilizes a pure price / time (FIFO) algorithm and does not use any approved participant distinction to provide additional priority to orders. All resting orders at the Bourse are always subjected to price protection.
	We question the Bourse's statistical focus on number of orders as opposed to number of contracts in Section C.2. From the table in Appendix 1, it is clear that only 2% of trades are greater than 100 contracts. However, ***over 13%*** of the contracts traded are done so ***in lots of 100-500***. This proposal potentially affects the trading of roughly ***1/7 of the exchange's contract volume.*** Furthermore, we feel that the statistic in Section C.1 that market makers "only participate up to 13% in crosses transactions" is misleading. ***Simply because the participation is typically below the***	THC also indicated that the 13% market maker participation on "out-right" crosses does not justify the removal of the existing procedure that provides 50% market maker participation on "out-right" crosses on 100 contracts or more. The original intent of the 50% market maker participation on crosses was to provide additional incentives on top of fee reductions for market makers only if they were to provide quotations on their assigned classes. This particular incentive has not assisted the Bourse in providing sufficient coverage on our option classes in addition to the comment in the first paragraph of this note. The removal of this market maker

	current guaranteed level is no justification for removing participation potential entirely.	participation procedure is only applicable to "out-right crosses" and does not touch the procedure applicable to the execution of option strategies. The Bourse has envisioned a more efficient, rapid and transparent crossing facility for approved participants which is not the case. At the present time, the Bourse utilizes an obsolete manual procedure consisting of a telephone contact system to execute "out-right" crosses above 100 contracts. This telephone contact system is a long process that involves calling all the market makers who are quoting on that particular line and can take an unreasonable time when a market participant is trying to do an "out-right" cross putting unintentional market exposure on his transaction. With the evolution of the Bourse's automated trading system and an effort to provide market participants with more efficient and transparent executions the Bourse has decided to remove any manual intervention on "out-right" crosses.
	We also see room for further improvement, or at least clarification, to the proposed rule changes. Specifically: ***1. There appear to be insufficient protections for market makers and customers when a cross is traded through the best bid/offer (BBO).*** From Section D.1 "b) if the intended cross or prearranged transaction price is on or outside the option's current best bid or ask, the market participant would have the obligation to fill all existing orders in the central order book which are at limit prices better than or equal to the cross price before completing such transaction" Why should the market participant not have the obligation to fill orders **AT** the cross price? Let us use an example with the following market conditions:	A cross can not trade-through a best bid / offer. That is why the new procedure reads as follows; If the intended cross or prearranged transaction price is on or outside the option's current best bid or ask, the market participant would have the obligation to <u>fill all existing orders in the central order book which are at *limit prices better than or equal to the cross price* before completing such transaction.</u> The example and methodology that THC provided in their first example of a crossing method is actually the manner the Bourse's system currently works. The only difference would be that it would not give the market maker the time to re-quote at the intended cross price. The Bourse is in the process of reviewing software modifications which could enable market makers to have multiple quotes or layered quotes.

Bid Size	Bid Price	Ask Price	Ask Size
100	1.00	1.05	10
200	0.90	1.10	100

Let us now assume that a broker is representing an institutional order to buy 1000 contracts at 1.10, and the broker is willing to fill the balance of the order at 1.10.
As the rule reads, it appears that the buyer receives a fill of 10 contracts at 1.05 and 990 contracts at 1.10, ***even though he was willing to accept a fill of 1.10 for his entire order.*** His order's price improvement was less than 5 basis points. Meanwhile, the seller was immediately disadvantaged by a trade-through that cost him nearly 5 percentage points.

There is no reason why any market participant should not, or could not, be accommodated at the crossing price if it is handled as a simultaneous transaction. We are always opposed to a rule that would disadvantage retail customers or market makers, reducing the incentive to provide liquidity.
2. There is a potential that this proposal would lead to vastly increased quote traffic. Following that example, if a market maker is offering 10 at 1.05, it is not unreasonable to expect that he may have an additional interest at 1.10. Under the current quoting conventions, it is unlikely that his further interest will be displayed on the book (We know of no one who currently quotes a "deep book"). *If the trades were being priced at 1.10, the market maker posting 1.05 (and only that market maker) should be protected for both SIZE AND PRICE at 1.10. At a minimum, he should be entitled to do at least 10 more at 1.10, making 20 in total, but ideally he should be given a chance to respond with his total interest at that price.* In the interest

THC's second methodology example which would move all resting orders to the intended cross price is not being reviewed at the current time. This particular method would require extensive programming at the Bourse level (requiring extensive system modifications that would require the adjustment of existing resting orders both at the client and market maker level to reflect the intended cross price as indicated). The Bourse has concluded that if market makers are capable of quoting depth they will be able to participate at different price levels.

As indicated in the previous paragraph, the Bourse is working on a software modification that could enable market makers to have multiple quotes or layered quotes. The Bourse is aware that this would vastly increase the Bourse's quote traffic, however, the Bourse will be able to provide this type of solution for the market makers.

	of speed and anonymity, that inquiry and response should be strictly electronic with a time limit of 3 seconds or less. Those market participants previously offering at 1.10 need no additional protection, since they are presumably offering their desired size at that price, and hence would be properly accommodated. Without that functionality, our quote traffic would grow exponentially as we would be forced to quote and update multiple sizes and prices in order to protect ourselves from trade-throughs. **3. It is unclear how market makers are protected on trades inside the BBO.** In the example above, what happens if it is a penny market, and the cross occurs at 1.04? If this is a nickel market, what happens if the facilitation occurs at 1.025? Would the behaviour differ if it were customer to customer or customer to firm? We need to reserve judgment on that portion of the proposal until details are forthcoming. As a firm, THC actively advocates rule changes and technological implementations that enhance speed and transparency, but recognize that the integrity of the market and accessibility to that market must be maintained. The current form of this proposal certainly does enhance the speed and efficiency of trading, but it must be modified in order to protect retail client orders and the market makers who provide valuable liquidity to the marketplace. In particular, it blurs the distinction between customer crosses and broker facilitation, and does not provide sufficient protection to resting orders either from retail clients or the market makers who provide liquidity on an ongoing basis. We believe that there is room to improve this worthwhile proposal in order to better accommodate all relevant constituencies at the Bourse.	A cross will now be able to be done inside the best bid / offer without market maker participation. THC uses "Protection" as terminology when indicating trades inside the best bid / offer and the Bourse uses "participation". Currently, market makers are given the <u>ability or opportunity</u> to participate on trades as incentives at prices inside their best bid / offer. If a market maker was quoting on a line a cross at the intended cross price the trading system would not be able to be executed a cross without taking out the market makers best bid / offer that is protection. Market makers will have to efficiently quote markets if they want to participate on crosses. The Bourse did not remove a protectionist procedure from it current procedures but a market maker incentive.

TD Securities Inc.	TD Securities Inc. supports the proposed amendments to the rules of the Bourse with respect to crossing procedures. Under the current procedures, the participant bringing the transaction is the last to know how much of the cross it will be transacting. Many cross transactions are done without the stock hedge and the underlying market can move significantly during the time it takes to report back the participation rate for the dealer bringing the cross. In most cases the dealer bringing the cross will be negatively selected since other market makers will take their maximum allowance if the underlying has moved favourably and none if it has moved unfavourably. Our ability to effectively service our clients is also impacted as substantial delays in reporting fills can occur under the current system. TD Securities Inc. can also be negatively selected in another way. When we bring a trade to market whereby a client is purchasing options from us, more often than not the other market makers will decline to participate (by and large the market prefers to be long options). When the same client comes back to unwind the trade (client sells) the market makers will participate as they are buying. The resulting situation is that although TD Securities Inc. took the full risk on the first trade, we do not get the full benefit of the offset when the client unwinds. If we were able to do both sides of the cross however, we would be able to offset positions as opposed to being negatively selected on the side that suits the other market makers. TD Securities Inc. has invested considerable time and capital to help develop the block transaction market for Canadian equity options and is consistently the market leader according to Montreal Exchange statistics. The proposed change	The purpose of these modifications is to mitigate such inconveniences and inefficiencies.

	in procedures will encourage TD Securities Inc. to continue to invest in the growth of this market.	
CIBC World Markets	I would just like to pass on some of the feelings/comments from single stock and index option traders at CIBC. We read the proposed changes to article 6380 and we're very happy to see them. Specifically the zero second cross rule. From a trader perspective giving up half of a clients' trade to the market makers is very hard on your business. Essentially the market makers take half of all the good trades and nothing on all the bad trades. Then also when the client comes to unwind the trade, the market makers can stay out of the unwind, leaving traders short/long options on unwanted positions. If you require any further feedback feel free to contact me.	The purpose of these modifications is to mitigate such inconveniences and inefficiencies.
Scotia Capital	Thank you for allowing a consultative process to the proposed changes for the current market model. It is our belief that the integrity of the market as a whole will be better served by implementing these changes to the crossing rules. The current model can be untimely and inefficient especially in fast moving markets as Market traders have to wait to hedge until they are made aware of what portion of the initial trade amount they will be able to trade. This provides market makers with the flexibility to accept or decline participation and appetite to trade up to the 50% of the trade. Furthermore, the uncertainty of the number of contacts that will be traded creates undue timing and hedging risks. Unhedged trades have become increasingly the norm for institutional clients, as such the current model creates timing and hedging risks. There is also the problem of institutional clients coming to unwind existing positions. While the dealer is expected to show an unwind level to his clients, market-makers who participated on	The purpose of these modifications is to mitigate such inconveniences and inefficiencies.

	the original trade will not participate on the unwind, leaving the dealer at risk. The proposed changes would allow a more seamless execution of hedges with greater certainty. In addition we believe there would be more incentive for the upstairs OTC flow to come to the listed market. We feel that this is a must for the Montreal Exchange if they want to attract institutional option flow and grow.	