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CIRCULAR 012-18
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TRADE EXECUTION

On January 17, 2018, amendments to (i) articles 5201, 6004, 6005, 6007, 6310, 6375, 6379, 6380, 6381, 6383, 6384, 6385, 6388, 6393, 6393A, 6636.1, 6671, 6815, 6815A, 6816 of the Rules of the Bourse de Montréal (the “Bourse”), (ii) the *Procedures applicable to the execution of cross transactions and the execution of prearranged transactions*, (iii) the *Procedures applicable to the execution of block trades*, (iv) the *Procedures applicable to the execution of riskless basis cross transactions on futures contracts on S&P/TSX indices and on share futures*, (v) the *Procedures for the cancellation or adjustment of trades*, and (vi) the *Procedures for the execution and reporting of exchange for physical (EFP), exchange for risk (EFR) and substitution of OTC derivative instruments for futures contracts transactions*, became effective. These amendments can be summarized as follows:

Article 6004

The amendments to article 6004 seek to introduce cross references to articles 6380 and 6816.

Article 6005 (Off-Exchange Transactions)

Article 6816 (Off-Exchange Transfers of Existing Futures Contracts)

Article 6671 (Exercise of options)

Article 6005 has been abrogated and its content is now incorporated in article 6816. Article 6816 has been amended to permit back-office book-entry transfer of positions “in connection with, or as a result of, a merger, asset purchase, consolidation or similar non-recurring transaction between two or more entities”. Article 6671 has been amended to specify that the exercise of options or the delivery of futures contracts are not prohibited forms of non-competitive trading under article 6380a.

Article 6310 (Best Price Execution)

The amendment specifies that in determining best execution, the Bourse will consider a number of factors in addition to price: trading strategy, speed of execution, certainty of execution, and overall cost. The rule also provides that in a strategy trade, the overall strategy should be considered, rather than each leg individually.

Article 6375 (Allocation of tradeable orders)

Article 6379 (Input of Orders)

Article 6375 has been amended to clarify that stop limit orders are to be presented to the market as soon as their triggering limit is reached. Article 6379 has been updated to provide that an approved participant shall not withhold or withdraw from the market any order, or any part of an order, for the benefit of any person other than the person placing the order.

Article 6380 (Prenegotiation Discussions)

Article 6380 has been fully redrafted. The *Procedures applicable to the execution of cross transactions and the execution of prearranged transactions*, the *Procedures applicable to the execution of block trades*, and the *Procedures applicable to the execution of riskless basis cross transactions on futures contracts on S&P/TSX Indices and on share futures* are incorporated in the new article 6380.

All transactions must occur through the trading system or pursuant to the Rules of the Bourse. All transactions must take place competitively, unless the transaction is included within a specific exception. The exceptions are specified in article 6380 and include pre-discussed trades, Block Trades, Riskless Basis Cross Trades, and Exchange for Related Positions. The rule also addresses when, and under what conditions, Cross Trades are permitted. In addition, in a pre-discussed transaction, the order belonging to the initiator of the discussion is entered into the matching engine first, unless the parties agree otherwise; provided however, in the case of an order for an equity ETF or index option, the order of a customer shall always be entered first if the other order is not for a customer. The article has also been updated to permit under certain circumstances that the residual amount of a pre-discussed trade be filled even though the residual amount is below the required threshold. Any residual amounts are executable as agreed between the parties, as long as the original amount discussed exceeded the required threshold and only after resting orders at the same price have been filled. Riskless Basis Cross transactions will also only be permitted for accredited counterparties, as defined in the *Derivatives Act*, CQLR, Chapter 1-14.01.

Article 5201 (Arbitration of disputes)**Article 6381(Cancellation or Adjustment of Trades)****Article 6383 (Acceptable Market Price)****Article 6384 (Decision by the Market Supervisor of the Bourse)****Article 6385 (Delays of Decision and Notifications)**

The amendment to article 5201 seeks to clarify the types of disputes that are subject to the arbitration process set forth in Rule 5. Those include for instance a dispute over the cancellation or the adjustment of a transaction. Article 6381 is fully redrafted. The *Procedures for the cancellation or adjustment of trades* are now incorporated in the new article 6381. The article mentions those circumstances under which an executed order can be canceled. Article 6381 also establishes a no-review range and exceptions to the non-cancellation of transactions. No trade is cancelled except if the trade threatens or impairs market integrity. Otherwise, trade prices may be adjusted if there is consent and the adjustment only impacts the persons involved in the transaction.

Article 6381 also provides for a 15 minutes period to report an erroneous trade except in the discretion of Market Operations where an additional period not to exceed one hour may be permitted “in extraordinary circumstances.” Finally, the market will be notified when any trade adjustment/cancellation that is outside the no-review range is under consideration by Market Operations. Articles 6383, 6384 and 6385 have been abrogated and their content has been incorporated in the new article 6381.

Article 6007 (Trading Delays and Halts)**Article 6388 (Daily Price Limits)****Article 6636.1 (Triggering of a Circuit-Breaker on the Underlying Interest)**

The Bourse has updated article 6636.1 to provide that the Bourse will halt trading upon notice from the Toronto Stock Exchange (TSX) that a circuit-breaker (single-stock or

market-wide) has been triggered or when IIROC imposes a regulatory halt in an underlying product on which the Bourse trades a derivative. Article 6007 has been updated to clarify the discretionary authority of Market Supervisors to halt trading and determine the conditions of reopening of trading. Finally, the Bourse has abrogated article 6388.

Article 6393 (Trading Price Limits)

Article 6393A (Other Trading Price Limits)

The wording of article 6393 has been updated by changing a “Trading Price Limit” by an “Order Price Filter”. Such filter on the electronic order entry system prevents inadvertent errors. Market Operations can, upon request of a market participant or acting on its own discretion, adjust the filter from the level at which it is automatically set as a result of market movements. Article 6393A has been abrogated and its content has been incorporated in article 6393.

Article 6815 (Exchange for Physicals (EFP) and Exchange for Risk Transactions (EFR))

Article 6815A (Substitution of OTC derivatives instruments for futures contracts)

Article 6815 is fully redrafted to incorporate the content of both article 6815A and the *Procedures for the execution and reporting of exchange for physical (EFP), exchange for risk (EFR) and substitution of OTC derivative instruments for futures contracts transactions*. EFP, EFR and substitution transactions will also only be permitted for accredited counterparties, as defined in the *Derivatives Act*, CQLR, Chapter 1-14.01.

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