

***** IMPORTANT NOTE *****

As stated in Circular 063-21 published on April 14, 2021, the launch of the Asian trading hours initiative has been rescheduled to September 19, 2021. As such, the attached rule amendments will become effective on September 19, 2021 instead of May 30, 2021.

CIRCULAR 038-21

February 26, 2021

SELF-CERTIFICATION

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. TO ACCOMMODATE THE EXTENSION OF THE BOURSE'S TRADING HOURS

On March 17, 2020 and on September 17, 2020, the Rules and Policies Committee of Bourse de Montréal Inc. (the "Bourse") approved amendments to articles 6.206 and 9.3 of the Rules of the Bourse. The Bourse proposes to extend its trading hours and open its market at 8:00 p.m. ET (t-1), for an additional six hours of trading, in order to facilitate global access to its market for a greater period of time.

These amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (CQLR, Chapter I-14.01).

The amendments attached herewith will become effective on **MAY 30, 2021**. Please note that the revised articles will also be available on the Bourse's website (www.m-x.ca).

The amendments described in the present circular were published for public comment by the Bourse on August 5, 2020 (see circular [135-20](#)) and on September 18, 2020 (see circular [160-20](#)). Further to the publication of these circulars, the Bourse received comments. A summary of the comments received as well as responses from the Bourse to these comments is attached hereto.

For additional information, please contact Alexandre Normandeau, Legal Counsel, at 514-787-6623 or by email at alexandre.normandeau@tmx.com.

Alexandre Normandeau
Legal Counsel
Bourse de Montréal Inc.

Compared version

Article 6.206 Block Trades

- (a) In general. Approved Participants may negotiate and execute a Transaction off of the Electronic Trading System pursuant to the following conditions:
- (i) A block trade Transaction may be arranged and executed only during trading hours on the Bourse for the eligible derivative.
 - (ii) Block trades are only permitted in the Derivative Instruments and for a quantity which meets or exceeds the minimum volume thresholds as follows (only to the extent the eligible security or derivative instrument is available for trading):

Eligible derivatives instruments	Prescribed time delay (from 6AM until the end of the Trading Day)	Block - Minimum volume threshold (from 6AM until the end of the Trading Day)	Prescribed time delay (from 2AM-8PM (t-1) until 5h59m59s)	Block - Minimum volume threshold (from 8PM (t-1)2AM until 5h59m59s)
	(As soon as practicable and in any event within the following time delay)		(As soon as practicable and in any event within the following time delay)	
One-Month CORRA Futures Contracts (COA)	15 minutes	500 contracts	1 hour	100 contracts
Three-Month CORRA Futures Contracts (CRA)	15 minutes	500 contracts	1 hour	100 contracts
Ten-Year Government of Canada Bond Futures Contracts (CGB)	15 minutes 30 minutes	1,500 contracts 3,500 contracts	1 hour	350 contracts
Two-Year Government of Canada Bond	15 minutes	250 contracts	1 hour	100 contracts

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Futures Contracts (CGZ)				
30-Year Government of Canada Bond Futures Contracts (LGB)	15 minutes	100 contracts	1 hour	100 contracts
Five-Year Government of Canada Bond Futures Contracts (CGF)	15 minutes	500 contracts	1 hour	100 contracts
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts	15 minutes	2,000 contracts	1 hour	500 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies one	Not applicable	Not applicable	1 hour	500 contracts

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through four (BAX Whites)				
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies five through eight (BAX Reds)	15 minutes	1,000 contracts	1 hour	250 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies nine through twelve (BAX Greens)	15 minutes	500 contracts	1 hour	100 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX) / Options on Three-Month Canadian	15 minutes	Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the	1 hour	Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the

Clearing Corporation rules, the Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the Trading System by the non-conforming Clearing Approved Participant for itself or for the Approved Participants, and in respect of the particular Listed Products that the Clearing Approved Participant clears.

(c) Upon being notified by the President or Chief Risk Officer of the Clearing Corporation that a Clearing Approved Participant has been deemed as restricted clearing member during the overnight clearing cycle as defined under Clearing Corporation rules and manuals, the Vice President, Regulatory Division, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the Trading System by such Clearing Approved Participant for itself and/or for any Approved Participants that clear their transactions through such Clearing Approved Participant.

~~(de)~~ Upon being notified by a Clearing Approved Participant as provided in paragraph (a) that it has suspended or terminated its clearing relationship with an Approved Participant, the Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the Trading System by or for the non-conforming Approved Participant in respect of the particular Listed Products cleared by the notifying Clearing Approved Participant.

~~(ed)~~ The Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department to reinstate access to the Trading System:

(i) for a Clearing Approved Participant (and the Approved Participants for which it clears) who has been suspended, has had its membership terminated or became non-conforming, upon notification by the President or the Chief Risk Officer of the Clearing Corporation that the Clearing Approved Participant has been reinstated and is in good standing;

(ii) for an Approved Participant, upon notification by a Clearing Approved Participant in good standing that it has established a clearing relationship with the Approved Participant.

(iii) for a Clearing Approved Participant who has been deemed as a restricted clearing member and for Approved Participants that clear their transactions through such Clearing Approved Participant, upon notification by the President or the Chief Risk Officer of the Clearing Corporation that the restricted clearing member status has been lifted for such Clearing Approved Participant;

| (f) The Vice President, Regulatory Division, may make the decisions under this Article acting in his or her sole discretion. However, nothing in this Article precludes the Vice President, Regulatory Division from consulting any other official of the Bourse in making the decisions under this Article or in submitting such decisions to the Special Committee for a determination.

Clean version

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Banker's Acceptance Futures Contracts Strategy Instruments		sum of the strategy legs		sum of the strategy legs
Ten-Year Government of Canada Bond Futures Contracts (CGB) / Options on Ten-Year Government of Canada Bond Futures Contracts (OGB) Strategy Instruments	15 minutes	Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the sum of the strategy legs	1 hour	Sum of the strategy legs: 2,000 contracts in which the options leg(s) volume must amount to at least 50% of the sum of the strategy legs

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Article 9.3 Suspension of Trading and Cancellation of Orders

- (a) A Clearing Approved Participant must notify the Vice President, Regulatory Division and the Market Operations Department, telephonically and by electronic mail immediately upon suspending or terminating its clearing relationship with an Approved Participant.
- (b) Upon being notified by the President or Chief Risk Officer of the Clearing Corporation that a Clearing Approved Participant has been suspended, has had its membership terminated or become non-conforming as defined under

Clearing Corporation rules, the Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the Trading System by the non-conforming Clearing Approved Participant for itself or for the Approved Participants, and in respect of the particular Listed Products that the Clearing Approved Participant clears.

- (c) Upon being notified by the President or Chief Risk Officer of the Clearing Corporation that a Clearing Approved Participant has been deemed as restricted clearing member during the overnight clearing cycle as defined under Clearing Corporation rules and manuals, the Vice President, Regulatory Division, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the Trading System by such Clearing Approved Participant for itself and/or for any Approved Participants that clear their transactions through such Clearing Approved Participant.
- (d) Upon being notified by a Clearing Approved Participant as provided in paragraph (a) that it has suspended or terminated its clearing relationship with an Approved Participant, the Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department immediately to suspend access to, and/or cancel any orders resting in, the Trading System by or for the non-conforming Approved Participant in respect of the particular Listed Products cleared by the notifying Clearing Approved Participant.
- (e) The Vice President, Regulatory Division, acting solely in his or her discretion, may instruct the Market Operations Department to reinstate access to the Trading System:
 - (i) for a Clearing Approved Participant (and the Approved Participants for which it clears) who has been suspended, has had its membership terminated or became non-conforming, upon notification by the President or the Chief Risk Officer of the Clearing Corporation that the Clearing Approved Participant has been reinstated and is in good standing;
 - (ii) for an Approved Participant, upon notification by a Clearing Approved Participant in good standing that it has established a clearing relationship with the Approved Participant.
 - (iii) for a Clearing Approved Participant who has been deemed as a restricted clearing member and for Approved Participants that clear their transactions through such Clearing Approved Participant, upon notification by the President or the Chief Risk Officer of the Clearing Corporation that the restricted clearing member status has been lifted for such Clearing Approved Participant;

- (f) The Vice President, Regulatory Division, may make the decisions under this Article acting in his or her sole discretion. However, nothing in this Article precludes the Vice President, Regulatory Division from consulting any other official of the Bourse in making the decisions under this Article or in submitting such decisions to the Special Committee for a determination.

Circulars 135-20 and 160-20: Summarized comments and responses

Amendments of the Rules of the Bourse to accommodate the extension of the Bourse's trading hours

No.	Date comments received	Participant Category	Summary of comments	Summary of responses
1.	October 5, 2020	IIAC	<p><u>Clearing Model</u></p> <ul style="list-style-type: none"> The industry is disappointed that the Bourse did not choose to reproduce the CME clearing model - where margin is called in the morning, without overnight calls; Overnight margin calling, as proposed in the Circulars, adds significant additional costs and logistical complications - such as facilitating a margin payment at 1:00 a.m. ET, for example - to our industry members; The proposed approach regarding margin calls adds unnecessary risk if complications do arise in 	<p>Regarding IIAC’s comments with respect to the clearing model put forward by CDCC, CDCC would like to remind IIAC of the importance of the key role it plays as a central counterparty (CCP) and as an FMI subject to the PFMI. In particular, Principle 4 - Credit Risk (3.4.16) requires a CCP to have the authority and operational capacity to make intraday margin calls, both scheduled and unscheduled, from participants. As a consequence of this role, CDCC has a responsibility to frequently and regularly measure and monitor its members’ credit risk throughout the trading day, as well as to provide the means or risk-based payment solutions for its clearing members to be able to manage that risk.</p> <p>CDCC is of the view that, given that the overnight trading window will be extended to cover a total of 10 hours (from the current 4 hours), the processes for monitoring and measuring the build-up of credit and liquidity risk overnight must be strengthened. CDCC’s objective in providing a robust model for the overnight session is primarily to offer a sound level of mutual protection to all its clearing members, who are exposed to each other’s uncovered risk through their contributions to CDCC’s clearing fund.</p> <p>As a result, CDCC has put forward an hourly monitoring mechanism, with the ability to call for additional collateral for clearing members who may be active during the overnight session. Under the Payment solution, clearing members will have demonstrated capabilities to post additional collateral during the overnight clearing cycle, while under the Pre-funding solution, clearing members would post additional collateral prior to the start of the overnight clearing cycle. As only position movements can trigger a margin call overnight, CDCC is of the view that it has built a flexible solution</p>

			<p>trying to meet a late-night margin call;</p> <ul style="list-style-type: none"> • Not all Canadian participants have a 24-hour operations team, which would make it easier to comply with the Proposal; • IIAC believes that reproducing the CME model would have made the Asian Trading Hours Initiative much more palatable for clearing brokers. 	<p>for its diverse set of clearing members, who may have differing levels of client activity as well as different operational capacities.</p> <p>With respect to IIAC’s reservations as to CDCC’s decision not to use a CME-type model, CDCC would like to remind IIAC that all CCPs, including CME (as articulated in CME’s Public Qualitative Disclosure), are subject to the same requirement to have the capacity to perform intraday (including overnight) calls. All CCPs are also required to define for their clearing members how failure to meet an end-of-day settlement or intraday (including overnight) call can constitute grounds for default.</p> <p>In addition, CDCC notes that the main factor allowing CME to avoid routine margin calls overnight is that CME has two daily settlement cycles, which greatly mitigates both the probability and the accumulated level of potential uncovered risk overnight. Furthermore, CME also retains the capacity and the right to make intraday margin calls overnight over and above the end of day settlement calls. Failure to meet these calls is considered grounds for a default declaration. Most other CCPs offering an overnight trading and clearing session (including Eurex and ASX), but retaining only one settlement cycle per 24 hours, have the potential for margin calls to be generated overnight in excess of a threshold, as well as offering payment solutions in foreign currencies, in a similar fashion to CDCC’s proposed model.</p> <p>IIAC comments that adding potential margin calls overnight adds unnecessary risk if complications arise in trying to meet a late-night margin call. CDCC would like to clarify that the margin calls that may occur overnight and the mechanisms to support those margin calls are being put in place to ensure adequate protection against the accumulation of uncovered risk for all clearing members, including those who do not intend to actively participate but are exposed to the potential build-up of risk overnight by members who are active in the extended trading session. CDCC has a responsibility to protect the clearing fund deposits provided by all its clearing members whether they participate in extended hours trading or not.</p> <p>In addition, CDCC confirms that operational staff will be available throughout the extended hours period for clearing members to contact should they experience any</p>
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				<p>temporary difficulty in meeting the overnight requirements, or require operational support. In addition, an escalation process will be followed in collaboration with the clearing members, to ensure the appropriate people are contacted in the event of any unforeseen issues overnight.</p> <p>Furthermore, CDCC considers that its clearing framework provides necessary transparency to its clearing members with respect to how margin calls may be generated overnight, as well as the potential for an escalation process to be triggered.</p>
2.	October 5, 2020	IIAC	<p><u>Reputation of the Canadian Derivatives Market</u></p> <ul style="list-style-type: none"> • IIAC has concerns regarding market liquidity and market integrity during Asian Trading Hours. The Bourse’s Regulatory Division must be able to identify potential market issues, as Asian Trading Hours may well increase risk of abusive or manipulative trading practices; • IIAC would request a copy of the Regulatory Division’s independent initiative analysis. 	<p><u>Market Liquidity</u></p> <p>The Bourse appreciates IIAC’s comments and concerns regarding the reputation of the Canadian derivatives market. With the common objective of preserving and enhancing the reputation of the derivatives market in Canada, the Bourse continuously strives to provide robust liquidity conditions for its suite of derivatives products. Although the Bourse recognizes that market liquidity during the Asian trading hours may be more challenging at launch, the Bourse is confident in its ability to provide an adequate level of on-screen pricing during early stages. The Bourse also has a true network of global participants and will leverage it around the globe to enhance market participation. One of the key objectives of the Asian Trading Hours Project is in fact to unlock new liquidity pools by facilitating access to trading for a larger number of users, to the benefit of the overall market. As a result, the Bourse believes the conditions will be in place to achieve a reasonable level of liquidity.</p> <p>The Bourse notes that many derivatives exchanges open for trading during non-local business hours (including North American derivatives exchanges) have successfully developed an acceptable level of liquidity throughout the years in their flagship contracts during their extended hours period, mostly as a result of the internationalization of their client base.</p> <p>As a derivatives exchange that has recently extended its trading hours, the Bourse looks to the evolution of activity and liquidity of its own flagship products in the first phase of extended hours (trading period from 2:00 a.m. to 6:00 a.m. ET), which can be used</p>

				<p>as an early indicator of future development of liquidity during the Asian trading hours. The average daily volume of products available for trading between 2:00 a.m. and 6:00 a.m. ET represents a significant portion of the Bourse’s volume, and the growth in flagship products since launch has been noteworthy.</p> <p>Comparison of year-over-year (YoY) activity for key contracts (January - September 2020 vs. January - September 2019):</p> <ul style="list-style-type: none"> All products: 15k average daily volume (ADV), up 36% YoY BAX: 5k ADV, up 16% YoY CGB: 9k ADV, up 35% YoY SXF: 2k ADV, up 112% YoY <p>The Bourse has also witnessed record volumes during the extended hours period in February 2020 with an average daily volume of approximately 35k contracts, representing close to 8% of the total daily volume for flagship products. This illustrates the value and the importance participants find in the extended hours proposition, especially as participants look for ways to express their views and manage their risk in a real-time fashion, as international events occur. Not only has the extended hours volume traded between 2:00 a.m. and 6:00 a.m. ET increased in nominal terms since launch, it has also increased as a proportion of daily activity. In the earlier stages, extended hours volumes accounted for approximately 3% of daily volume for flagship products while it represented closer to 7% in the more recent months.</p> <p>Throughout the months, the combination of tight spreads (consistently close to minimum tick) and reasonable bid and ask sizes, not only at the top of book, but also across all levels of depth, has also contributed to enhancing market quality. As a result, the Bourse has observed stable liquidity during the extended hours period since launch, as well as an increase in product adoption during the additional trading hours as this initiative became more mature.</p> <p>It is worth mentioning that similar liquidity concerns were raised by IIAC in anticipation</p>
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				<p>of the first extended hours project. The facts and results highlighted previously suggest that the Bourse has successfully addressed and managed these concerns and risks in the past, and shall continue to do so in the future.</p> <p>For the Asian Trading Hours Project, the Bourse is seeking partnerships with domestic and international firms to support such liquidity, similarly to what was successfully achieved for the first phase of the extended trading hours. More precisely, the Bourse is looking to implement robust market making programs. The Bourse plans to publish a Request for Proposal (RFP) for its flagship products to seek applications from interested firms. The Bourse will ensure a sound program structure that will help develop market liquidity as best possible during these new hours. The Bourse has also engaged in several discussions with current and prospective market makers regarding their willingness to fulfil market making obligations during the Asian trading hours, such as maintaining a contracted minimum size, maximum spread and minimum rate of presence on key contracts. Many have already shown meaningful interest. In addition, other participants have also stated that even though they might not take part in the market making program, they would be active in the market to provide liquidity at those times. The Bourse already offers eligible market participants the option to enroll in a volume rebate program. This incentive program will also be made available during the Asian trading hours and should also motivate the community to provide liquidity during those hours.</p> <p>Based on the foregoing, the Bourse is confident that liquidity can be fostered and with time, will organically develop during the new trading hours, as it has improved in the past.</p> <p><u>Market Integrity</u></p> <p>The Bourse would like to reassure IIAC that the Market Operations Department (“MOD”) and the Regulatory Division of the Bourse (the “Division”) will apply and enforce the same rules and procedures during the Asian trading hours, with the same rigor applied during the current extended trading session (opening at 2:00 a.m. ET) and regular trading session. In addition, the Bourse’s market operations and technical help</p>
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				<p>desk teams will be present during the Asian trading hours to ensure adequate market monitoring activities and to offer client support.</p> <p>As with all of the Bourse’s commercial projects, the Division has reviewed and analyzed the Asian Hours Trading Project to assess the impacts on its activities. Accordingly, as indicated in the Circulars, the Division will adapt its surveillance activities to extend the scope of its monitoring to include trading activities during the new trading hours and will consider adjustments where and if necessary. In addition, the Division has determined that the same requirements applicable during the current trading day will continue to apply for compliance, supervision and reporting during the new trading hours. A summary of the conclusions reached by the Division following its assessment of regulatory requirements has been included in the analysis of the Bourse (refer to the Circulars).</p> <p>In conclusion, the Bourse is of the view that it has the resources and tools in place to protect market integrity throughout the entire trading session.</p>
3.	October 5, 2020		<p><u>Business opportunity</u></p> <ul style="list-style-type: none"> • IIAC members doubt that additional revenue from overnight trading will outweigh the additional costs needed to implement this Proposal. Therefore, the Proposal does not present a beneficial business opportunity for most of the Canadian participants; • It is unlikely that firms without a 24-hour operations team will be 	<p>The Bourse regrets that the Asian Trading Hours Project is not perceived as a beneficial business opportunity for some Canadian participants. The Bourse is of the opinion that this initiative will allow the Canadian listed derivatives market to follow the global trend, compete at an international level and benefit from globalization. Most large competing derivatives exchanges have in fact been operating a successful round-the-clock trading offering for many years.</p> <p>The Asian Trading Hours Project aims to reduce barriers to entry for foreign investors by enhancing global access to the Canadian listed derivatives market. As the Bourse expands its business development efforts internationally and more specifically in the APAC region, client demand for access to Canadian derivatives is becoming increasingly strong. Numerous growing trends, such as increased net Japanese flows into Canadian bonds and globalization of pension assets in countries such as Australia, have fueled demand for Canadian products and related futures contracts over the last year.</p> <p>As more investors from new regions such as APAC take interest in Canadian markets</p>

			<p>promoting overnight trading to clients.</p>	<p>and futures specifically, the Bourse strongly believes this initiative will contribute to enhancing the Canadian financial ecosystem. As such, it is the Bourse’s opinion that this endeavour represents a meaningful long-term opportunity for Canadian financial markets to further grow and develop as a whole, as new client segments, liquidity pools and capital are introduced to the market. Although the Bourse does not have full visibility into each of its member’s individual client base, growth opportunities, internal constraints or operations, the Bourse believes this initiative can be beneficial to participants currently involved in the Bourse’s market, as it is expected to enrich and improve the trading flow and liquidity offering throughout the open hours.</p> <p>It is also worth noting that the Bourse is in the process of applying for recognition in Hong Kong and Singapore in order to allow for direct access to its market, as well as increase its business development activities in these regions. The Bourse has already started building out a team based in Hong Kong dedicated to the APAC region, with a focus on derivatives. With the hire of an Executive Managing Director for TMX Asia in 2019 and the ongoing objective of growing its team in the region, the Bourse’s Hong Kong office welcomes collaboration with IIAC’s dealer representation in APAC. Such joint efforts would further extend the scope of Canadian capital markets and enhance the value proposition of offering a transparent listed derivatives market that supports investment needs for end users.</p>
4.	October 5, 2020		<p>The targeted launch of the Asian Trading Hours Initiative - currently planned for Q1 2021, as per the Circulars – is too soon to ensure “that market participants can adapt to this expanded trading and clearing framework”.</p>	<p>The Bourse has announced a launch date in February to provide sufficient notice to participants. The current projected launch date is set for Sunday May 30, 2021. The Bourse will provide periodic updates and issue communications to keep the industry abreast of development efforts as the project evolves.</p>