



## **INTRODUCTION OF OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES IN THE MID-PORTION OF THE YIELD CURVE (MID-CURVE)**

### **AMENDMENTS TO THE DAILY SETTLEMENT PRICE PROCEDURES FOR FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS, 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 FOR THE CANCELLATION OF TRADES**

#### **I. INTRODUCTION**

Bourse de Montréal Inc. (the Bourse) proposes to list options on Three-Month Canadian Bankers' Acceptance Futures (the BAX) in the mid-portion of the yield curve (mid-curve options) whose expiration date does not coincide with the expiry of the underlying BAX futures contract. The underlying of the mid-curve options will be BAX contracts whose expiry varies between one year and two years following the expiry of the related mid-curve options. Thus, these new mid-curve options will offer a more precise and less costly mean of near-term exposure to the anticipated move in the rates of short-term debt instruments to occur in one or two years.

The mid-curve options will be distinct from the standard OBX options whose expiry date corresponds with the expiry date of the underlying BAX futures contract.

#### **II. PROPOSED AMENDMENTS TO THE PROCEDURES OF THE BOURSE**

The Bourse proposes to amend the following procedures:

- Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts
- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions
- Procedures Applicable to the Execution of Block Trades
- Procedures for the Cancellation of Trades

#### **III. RATIONALE**

In light of interest expressed by institutional interest rate market participants, the Bourse proposes to expand its options products on the BAX by introducing mid-curve options.

Several factors support listing this new options class on futures contracts:

- i) Allow listing of options on the BAX whose last trading day does not coincide with the last trading day of the underlying futures contract.

- ii) Allow market participants to manage efficiently and at a lesser cost their near-term exposure to future rates of short-term debt instruments. In fact, the option's nearest expiry will make it less costly (time value) than a similar regular option traded in the over-the-counter market or than a traditional OBX option.
- iii) Expand the options on the BAX complex as is the case on other global exchanges offering this type of contracts.

The following table provides the activity volume on mid-curve options on short-term interest rate futures contracts traded on other global exchanges.

<b>Short-Term Interest Rate Options on Futures Contracts</b>	<b>Exchange</b>	<b>Average Daily Volume Jan.-Dec. 2009</b>	<b>Average Daily Volume Jan-Dec. 2008</b>	<b>% Change</b>
<b>EURODOLLAR</b>	<b>CME</b>			
Mid-curve options		169,413	159,699	6.1%
Standard options		459,194	731,849	-37.3%
<b>EURIBOR</b>	<b>LIFFE</b>			
Mid-curve options		72,261	31,078	132.5%
Standard options		475,048	416,916	13.9%
<b>STERLING</b>	<b>LIFFE</b>			
Mid-curve options		47,302	50,759	-6.8%
Standard options		147,955	230,779	-35.9%

Sources: CME / NYSE LIFFE

CME and NYSE/LIFFE list mid-curve options on one-year and two-year Eurodollar, Euribor and Sterling futures contracts.

#### IV. PRODUCT PROPOSED

The proposed product is an option on Three-Month Canadian Bankers' Acceptance Futures in the mid-portion of the yield curve whose expiry precedes by one year or two years the expiry of the underlying quarterly BAX contract.

Specifically, at any time the following contract months will be listed: 4 nearest quarterly contracts whose expiry precedes by one year the expiry of the underlying, 4 nearest quarterly contracts whose expiry precedes by two years the expiry of the underlying and 2 nearest non quarterly contracts (serials) whose expiry precedes by one year the expiry of the underlying following the expiry date of the nearest quarterly contract. To illustrate, the following contracts would have been listed in December 2009.

<b>SERIAL – NEAREST NON QUARTERLIES</b>		
<b>Contract Month</b>	<b>Last Trading Day</b>	<b>Underlying BAX Contract Month</b>
<b>January 2010</b>	<b>January 18, 2010</b>	<b>March 2011</b>
<b>February 2010</b>	<b>February 12, 2010</b>	<b>March 2011</b>

<b>NEAREST QUARTERLIES (ONE-YEAR BAX EXPIRY)</b>		
<b>Contract Month</b>	<b>Last Trading Day</b>	<b>Underlying BAX Contract Month</b>
<b>March 2010</b>	<b>March 15, 2010</b>	<b>March 2011</b>
<b>June 2010</b>	<b>June 14, 2010</b>	<b>June 2011</b>
<b>September 2010</b>	<b>September 13, 2010</b>	<b>September 2011</b>
<b>December 2010</b>	<b>December 13, 2010</b>	<b>December 2011</b>

<b>NEAREST QUARTERLIES (TWO-YEAR BAX EXPIRY)</b>		
<b>Contract Month</b>	<b>Last Trading Day</b>	<b>Underlying BAX Contract Month</b>
<b>March 2010</b>	<b>March 15, 2010</b>	<b>March 2012</b>
<b>June 2010</b>	<b>June 14, 2010</b>	<b>June 2012</b>
<b>September 2010</b>	<b>September 13, 2010</b>	<b>September 2012</b>
<b>December 2010</b>	<b>December 13, 2010</b>	<b>December 2012</b>

## **V. SUMMARY OF THE PROPOSED AMENDMENTS TO THE RULES OF THE BOURSE**

The current Rules of the Bourse allows for the listing of options on Three-Month Canadian Bankers' Acceptance Futures in the mid-portion of the yield curve. Consequently, no regulatory amendments are necessary to list mid-curve options. These contracts are an expansion of the OBX complex. They will be covered by articles 6751 to 6770 of Rule Six Trading (Rule Six) on Options on Three-Month Canadian Bankers' Acceptance Futures. Note that article 6757 Last Trading Day provides for the unique nature of mid-curve contracts whose expiry does not coincide with the expiry of the underlying futures contract, contrary to standard OBX contracts. Thus, as stipulated in article 6757, the last trading day will be referred to in the contract specifications.

However, several trading procedures have to be updated in order to include this category of options in the OBX complex made of standard and mid-curve options. In fact, the explicit OBX symbol in the procedures will have to be deleted since the mid-curve ticker symbol will differ from the standard OBX symbol. The following procedures were updated:

- Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts
- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions
- Procedures Applicable to the Execution of Block Trades
- Procedures for the Cancellation of Trades

## **VI. PROCESS**

The proposed amendments are submitted to the Rules and Policies Committee of the Bourse for approval. Once the approval has been obtained, they will then be transmitted to the Autorité des

marchés financiers (AMF) in accordance with the self-certification process and to the Ontario Securities Commission (OSC) for information. The proposed amendments will also be published for a 30-day comment period.

## **VII. ATTACHED DOCUMENTS**

- Options on Three-Month Canadian Bankers' Acceptance Futures Contract Specifications
- Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts
- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions
- Procedures Applicable to the Execution of Block Trades
- Procedures for the Cancellation of Trades

## OBX- Options on Three-month Canadian Bankers' Acceptance Futures

Specifications

<b>Trading Unit</b>	One Three-month Canadian Bankers' Acceptance Futures (BAX) contract.
<b>Underlying Futures Contract</b>	<ul style="list-style-type: none"><li>▪ <b>For standard OBX options</b>, the underlying BAX futures contract is the futures contract that expires in the month in which the option expires.</li><li>▪ <b>For Serial Mid-Curve Options</b>, the underlying BAX futures contract is the futures contract that expires one-year from the next quarterly month that is nearest to the expiration of the option.  For example, the underlying futures contract for the One-year Mid-Curve option that expires in January or February is the March futures contract in the next calendar year.</li><li>▪ <b>For 1-Year and 2-year Quarterly Mid-Curve Options</b>, the underlying BAX futures contract is the corresponding quarterly futures contract that expires one or two years after the option expires, respectively.  For example, the underlying futures contract for the One-year Quarterly Mid-Curve option that expires in June is the June futures contract in the next calendar year.</li></ul>
<b>Contract Months</b>	Quarterly: March, June, September and December. Serial: January, February, April, May, July, August, October and November.
<b>Price Quotation</b>	Quoted in points where each 0.01 point (1 basis point) represents C\$25.  For example, a quote of 0.465 represents a total option premium of C\$1,162.50 (i.e., 46.5 basis points × C\$25).

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**Last Trading Day**

▪ **For standard OBX Options:** Trading ceases at 10:00 a.m. (Montréal time) on the 2<sup>nd</sup> London (Great Britain) banking day prior to the 3<sup>rd</sup> Wednesday of the contract month. If the fixed day is an exchange or banking holiday in Montreal or Toronto, the last trading day shall be the previous bank business day.

▪ **For all Mid-Curve Options:** Trading ceases at 10:00 a.m. (Montréal time) on the Friday immediately preceding the 3<sup>rd</sup> Wednesday of the contract month. If the fixed day is an exchange or banking holiday in Montreal or Toronto, the last trading day shall be the previous bank business day.

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**Contract Type**

American style.

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**Minimum Price Fluctuation**

- 0.005 point = C\$12.50 per contract.
- 0.001 point = C\$2.50 per contract for Cabinet trades (defined as options with a premium of less than C\$0.01).

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**Reporting Level**

300 options or futures equivalent contracts. For the purpose of calculating this limit, positions in the options contracts are aggregated with positions in the underlying futures contracts. For aggregation purposes, one option contract is equivalent to one futures contract.

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**Position Limits**

Information on Position Limits can be obtained from the Exchange as they are subject to periodic changes.

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**Strike Prices**

Strike prices will be listed in intervals of 0.125 point (12.5 basis points) in a range of 150 basis points above and 150 basis points below the strike closest to the previous day's underlying futures settle price.

Strike prices will be listed in intervals of 0.25 point (25 basis points) in a range of 550 basis points above and 550 basis points below the strike closest to the previous day's underlying futures settle price.

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**Margin Requirements**

Information on margin requirements can be obtained from the Exchange as they are subject to periodic changes.

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**Price Limits**

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None

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**Trading Hours**

- Early session: 6:00 a.m. to 7:45 a.m.
- Regular session: 8:00 a.m. to 3:00 p.m.
- Extended session\*: 3:09 p.m. to 4:00 p.m.

\* There is no extended session on the last trading day of the expiring contract month.

Note: During early closing days, the regular session closes at 1:00 p.m., time at which the daily settlement price is established. In those circumstances, the extended session is from 1:09 p.m. to 1:30 p.m.

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**Clearing Corporation**

Canadian Derivatives Clearing Corporation (CDCC).

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**Ticker Symbol**

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- **For standard OBX Options:** OBX
- **For Mid-Curve Options:** To be determined

## 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
<b>Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX):</b>		
1 <sup>st</sup> four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
<b>Thirty-Day Overnight "Repo" Rate Futures Contracts (ONX):</b>		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
<b>Government of Canada Bond Futures Contracts:</b>		
All expiry months and strategies	5 seconds	No threshold
<b>Futures Contracts on S&amp;P/TSX Indices:</b>		
All expiry months	0 second	≥100 contracts
All expiry months and strategies	5 seconds	<100 contracts
<b>Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units Futures Contracts:</b>		
All expiry months and strategies	5 seconds	No threshold
<b>Options on Three-Month Canadian Bankers' Acceptance Futures Contracts <del>(OBX)</del>:</b>		
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
<b>Equity and Currency Options:</b>		
All expiry months	0 second	≥100 contracts
All expiry months	5 seconds	< 100 contracts
<b>Index Options:</b>		
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.

## PROCEDURES FOR THE CANCELLATION OF TRADES

### 1. APPLICABLE RULES

The procedures herein are consistent with and refer to the following Rule Six articles of the Bourse:

- 6303 - Validation, alteration or cancellation of a trade
- 6381 - Cancellation of Trades
- 6383 - Acceptable Market Price
- 6384 - Decision by the Market Supervisor of the Bourse
- 6385 - Delays of Decision and Notifications

### 2. SUMMARY OF THE RELATED RULES

In order to maintain a fair and equitable market, trades may be cancelled by a vice-president or a senior vice-president of the Bourse if such transactions are detrimental to the normal operation or quality of the market or in any other circumstance deemed appropriate considering market conditions at the time of the trade or if the parties involved in the trade agree to the cancellation.

### 3. OBJECTIVE

The objective of the procedures described herein is:

- To ensure that all transactions are executed at a price coherent with prevailing market conditions (integrity) and to ensure that input errors can be corrected.

### 4. DESCRIPTION

#### 4.1. DETECTION AND DELAYS

Market participants have the responsibility to identify without delay erroneous trades. As soon as an erroneous transaction resulting from an entry error is identified, the approved participant must advise a Market Supervisor of the Bourse by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366. A Market Supervisor will then contact the counterparties to the trade in order to reach an agreement within the 15 minutes that follow the execution of the transaction as prescribed by article 6381 of the Rules of the Bourse.

#### 4.2. IMPLIED SPREAD ORDERS

**“Regular orders”:** Orders routed by approved participants to the Montréal Exchange trading system.

**“Implied orders”:** Orders generated by the implied pricing algorithm (using regular orders) and registered in the order book by the trading engine.

A spread trade resulting from an implied spread order is in reality constituted from each of the individual legs regular outright orders. For the purpose of this procedure, an erroneous trade occurring on an implied spread order will be treated as if the spread trade was executed using regular posted orders of each individual leg separately.

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an erroneous spread trade resulting from an implied spread order will be at least the increment on one of the individual legs (5 basis points) and at the most, the sum of each individual legs' increments (10 basis points).

#### 4.3. VALIDATION – NO CANCEL RANGE

In order to maintain market integrity, when a transaction outside the No Cancel Range is identified by Market Supervisors, the parties involved will be contacted within a reasonable delay by the Market Operations Department of the Bourse in order to adjust the trade price within the No Cancel Range.

When any potential erroneous trade is brought to the attention of a Market Supervisor by a market participant, the Market Supervisor will determine whether the trade price is in the No Cancel Range for the particular derivative instrument.

The No Cancel Range is defined as the price interval within which a trade cannot be cancelled. To establish the No Cancel Range, Market Supervisors:

- Determine, in accordance with article 6383 of the Rules, what was the acceptable market price for the derivative instrument was before the trade occurred. In making that determination, the Market Supervisor will consider all relevant information, including the last trade price, a better bid or offer, a more recent price for a related derivative instrument (for example a different expiry month) and the prices of similar derivative instruments trading on other markets;
- Apply (add and deduct) the following increments to the acceptable market price:

DERIVATIVE INSTRUMENT	INCREMENT
Three-Month Canadian Banker's Acceptance Futures – BAX (all quarterly and serial months)	5 basis points
Three-Month Canadian Banker's Acceptance Futures – BAX SPREADS: - Regular spread orders - Implied spread orders	5 basis points 5 to 10 basis points; sum of the spread's individual legs' increments.
Options on Three-Month Canadian Banker's Acceptance Futures – <del>OBX</del>	5 basis points
Government of Canada Bonds Futures	20 basis points
Options on Government of Canada Bonds Futures	20 basis points
Futures Contracts on S&P/TSX Indices	1% of the acceptable market price of these futures contracts

DERIVATIVE INSTRUMENT	INCREMENT
Options on S&P/TSX Indices First three serial months	0.5 index point
Options on S&P/TSX Indices Next two quarterly months	1 index point
EQUITY OPTIONS PRICE RANGES:                     \$0.00 to \$5.00	\$0.10
\$5.01 to \$10.00	\$0.25
\$10.01 to \$20.00	\$0.50
\$20.00 up	\$0.75
SPONSORED OPTIONS PRICE RANGES:                     \$0.001 to \$0.99	\$0.25
\$1.00 up	\$0.50
SINGLE STOCK FUTURES	\$2.00

#### 4.4. TRADE PRICE INSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the reported erroneous trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless the counterparty to the erroneous trade has agreed to cancel it.

Erroneous transactions, for which there has been consent between the parties to cancel, may be cancelled within the trading session (early, regular or extended) during which they have occurred.

#### 4.5. TRADE PRICE OUTSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the erroneous trade is outside the No Cancel Range, then all parties involved in the transaction will be contacted and advised of the situation.

The transaction will be cancelled if all parties involved are in agreement.

The transaction will not be cancelled if one of the parties involved refuses. The residual trades (the ones not cancelled) will be readjusted to the limit of the No Cancel Range. In such a case, if the transaction involved a linked implied order, the initiator of the original error trade will take responsibility for the outcome. The error initiator may therefore have to take ownership of market positions for the directly resulting trades in the other linked contracts.

The Market Operations Department of the Bourse will adjust erroneous transactions in the best possible way. The main objective when adjusting erroneous trades is to minimize the impact for all market participants involved in the erroneous transaction and more particularly those who had a regular order in the order book.

#### 4.6. OTHER SITUATIONS JUSTIFYING THE CANCELLATION OF TRANSACTIONS

The Market Operations Department of the Bourse will review all circumstances surrounding a transaction to determine whether the trade occurred in accordance with the rules of the Bourse. The factors that will be considered include, among other things, the market conditions immediately before and after the trade was executed; the volatility of the market; the prices of

related instruments in other markets and the fact that one or many parties to the transaction consider that it was executed at a valid price.

In the case of a system failure, it is possible that the Bourse's automated trading system will freeze with orders queuing and waiting to be processed. Once the problem is resolved, the market will be placed into a pre-opening phase during which trading in each derivative instrument will be halted in order to modify the opening time parameters. This pre-opening phase will allow market participants to modify orders and will ensure that the system failure does not impact the integrity of the market. Nevertheless, when the system is not frozen, pending orders could be executed before the Bourse can halt the derivative instruments. In such circumstances, Market Supervisors could have to cancel trades resulting from such executions.

#### **4.7. MULTIPLE MARKET MAKER TRANSACTIONS ON EQUITY, INDEX AND BOND OPTIONS**

A Market Supervisor may also cancel transactions under the following conditions:

1. Multiple consecutive transactions can be cancelled if they consist of four (4) or more transactions against one market maker provided that:
  - all transactions were executed within a one (1) second interval;
  - the opposite side of the transactions consists of one or several market makers.
2. The market maker involved in the four (or more) transactions contacted a Market Supervisor at 514 871-7877 or 1-866-576-8836 within one (1) minute of the execution time of the multiple consecutive transactions, to request their cancellation.

#### **4.8. DECISION**

A decision to cancel or to refuse to cancel will be rendered by a Market Supervisor within 30 minutes following the cancellation request.

If the decision is to cancel the trade, the Market Supervisor will remove the trade from the records. Furthermore, if "stop" orders were triggered and therefore executed as a result of the cancelled trade, then these "stop" trades will also be cancelled and the "stop" orders will have to be re-instated in the order book by the initiators of such orders. Trade cancellation messages will be disseminated.

When a transaction is cancelled, if it originated from a regular order posted in the order book, the original price/time priority (FIFO) will not be maintained if the initiator of the original order wishes to re-instate his order after the cancellation. This cancelled order shall therefore be re-entered in the trading system by the initiator of the original order. This new order entry time will be the official entry time of the re-instated order.

If the Market Supervisor's decision is to not cancel the trade, the parties to the transaction can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.

## DAILY SETTLEMENT PRICE PROCEDURES FOR FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS

### 1. RULE

Article 6390 of the Rules of Bourse de Montréal Inc. (the Bourse) stipulates that:

“The daily settlement price or the closing quotations are determined according to the procedures established by the Bourse for each derivative instrument.”

### 2. SUMMARY

#### FUTURES CONTRACT AND OPTIONS ON FUTURES CONTRACT DAILY SETTLEMENT PRICES

- These markets use an average price during the last minutes of trading to establish a single settlement price. These calculations are executed manually by market officials or, as the case may be, by an automated algorithm using pre-established guidelines for each product.
- The prices at which block trades, Exchange for Physical (EFP), Exchange for Risk (EFR) or Substitution transactions are arranged shall not be used to establish the open, high, low or daily settlement price.

### 3. OBJECTIVES

The objectives of establishing daily settlement prices are:

- Ensure a fair and orderly market close and pricing for approved participants so that they can properly mark-to-market their positions for margin calculations and back office processing, including the clearing and settlement of their transactions ;
- Ensure that the Canadian Derivatives Clearing Corporation (CDCC) and all market participants are informed of the settlement prices.

### 4. DESCRIPTION

#### 4.1 THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACTS (BAX)

The daily settlement price procedure for the Three-Month Canadian Bankers' Acceptance Futures contract (BAX) is executed by a fully automated pricing algorithm which utilizes the parameters described in sections 4.1.1, 4.1.2 and 4.1.3 to ensure accuracy in the process.

#### **DEFINITIONS:**

**“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.

#### **4.1.1 IDENTIFICATION OF THE FRONT QUARTERLY CONTRACT MONTH**

The automated daily settlement pricing algorithm identifies the front quarterly contract month from the first two quarterly contract months. The front quarterly contract month is the one, among the first two quarterly contract months, that has the largest open interest and the required market information. In the absence of both these criteria together, then the front quarterly contract month shall be determined by market officials based on available market information.

#### **4.1.2 ALGORITHM UTILIZED FOR THE DETERMINATION OF THE DAILY SETTLEMENT PRICE OF THE FRONT QUARTERLY CONTRACT MONTH**

Once the front quarterly contract month has been identified, the automated daily settlement price algorithm will determine the settlement price of the front quarterly contract month according to the following priorities: first, it will use the last three minute weighted average price of cumulated trades amounting to at least 50 contracts on that contract month; if no such average price is available, it will then use the last 30 minute weighted average price of cumulated trades amounting to at least 50 contracts on that contract month. Trades resulting from both regular and implied orders will be accounted for in the process. If no such average price is yet available, then the least variation between the bid or offer price that is not as a result of implied orders and the previous day settlement price will be used.

Once the daily settlement price for the front quarterly contract month has been established, it will be verified against the booked orders and if there is a better outright bid or offer that is not as a result of implied orders, the latter will take precedence over the daily settlement price calculated as described in the paragraph above.

#### **4.1.3 PROCEDURE FOR THE DETERMINATION OF THE DAILY SETTLEMENT PRICE OF THE REMAINING BAX CONTRACT MONTHS**

Upon completion of the aforementioned steps, the automated daily pricing algorithm will then establish the settlement prices for all other BAX contract months sequentially. The daily settlement prices of all other BAX contract months will be based first on the last three minute outright market (resulting from regular and implied orders) and strategy combination traded weighted average or, if no weighted average price can be determined in this manner, the least variation between the bid and offer for booked orders.

#### **4.1.4 ANCILLARY PROCEDURE**

In the absence of any required items to apply the aforementioned procedure, market officials will establish the settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

## **4.2 FUTURES CONTRACTS ON S&P/TSX INDICES**

The settlement price shall be the weighted average of all trades during the closing range. The closing range is defined as the last minute of the trading session for all contract months.

### **4.2.1 MAIN PROCEDURE**

- **Booked orders**

If there is an unfilled order with a higher bid or lower offer in an outright month, this bid or offer will override the settlement price obtained from the weighted average. The order must have been posted for 20 seconds or longer prior to the close and its size must be for a total of 10 contracts or more.

- **Last trades**

If there are no trades in the last minute of trading, then the last trade will be taken into account while still respecting posted bids and offers in the market.

### **4.2.2 FIRST ANCILLARY PROCEDURE**

When two contract months and the spread are trading (quarterly calendar roll), the ancillary procedure of this section will apply.

- The front month must be settled first (the establishment of the front month is based on the month with the greatest open interest).
- The spread between the two contract months must be settled next by taking into account the last minute average trading price and by examining the trades executed during the previous 10 minutes.
- The settlement price for the back month or far month is obtained by the difference between the front month settlement price and the value of the spread.

### **4.2.3 SECOND ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.2.1 and the ancillary procedure in 4.2.2, the following ancillary procedure will apply.

Market officials will post a settlement price that will reflect the same differential that was applied on the previous day settlement. The settlement price will be adjusted accordingly to respect that contract's previous settlement price.



#### **4.2.4 THIRD ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.2.1 and the ancillary procedures in 4.2.2 and in 4.2.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

### **4.3 GOVERNMENT OF CANADA BOND FUTURES CONTRACTS**

#### **4.3.1 MAIN PROCEDURE**

The settlement price shall be the weighted average of all trades during the closing range. The closing range is defined as the last minute of the trading session for all contract months.

- **Booked orders**

If there is an unfilled order with a higher bid or lower offer in an outright month, this bid or offer will override the settlement price obtained from the weighted average. This order must have been posted for 20 seconds or longer prior to the close and its size must be for 10 contracts or more.

- **Last trades**

If there are no trades in the last minute of trading, then the last trade will be taken into account while still respecting posted bids and offers in the market.

#### **4.3.2 FIRST ANCILLARY PROCEDURE**

When two contract months and the spread are trading (quarterly calendar roll), the following ancillary procedure will apply.

- The front month must be settled first (the establishment of the front month is based on the month with the greatest open interest).
- The spread between the two contract months must be settled next by taking into account the last minute average trading price and by examining the trades executed during the previous 10 minutes.
- The settlement price for the back month or far month is obtained by the difference between the front month settlement price and the value of the spread.

### **4.3.3 SECOND ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.3.1 and the ancillary procedure in 4.3.2, the following ancillary procedure will apply.

Market officials will post a settlement price that will reflect the same differential that was applied on the previous business day. The settlement price will be adjusted accordingly to respect that contract's previous settlement price.

### **4.3.4 THIRD ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.3.1 and the ancillary procedures in 4.3.2 and 4.3.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

## **4.4 OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACTS ~~(OBX)~~**

### **4.4.1 MAIN PROCEDURE**

#### **4.4.1.1 Weighted average**

The settlement price shall be the weighted average of the prices traded in the closing range (last minute of trading). If there is at the close, a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price.

#### **4.4.1.2 Last trades**

If no trade occurs during the closing range, the market officials will consider transactions executed during the last 30 minutes of trading. Also, to be considered, the bids and offers shall be for a minimum of 25 contracts and shall have been posted at least one minute before the close to be considered.

If no trade occurs in the closing range (or in the last 30 minutes of trading), the settlement price shall be the theoretical price calculated by the Bourse (as described in section 4.4.2). If there is at the close a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price.

### **4.4.2 ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.4.1, the following ancillary procedure will apply.

The settlement price shall be determined by inserting the following parameters into a standard option pricing model (Black & Scholes):

**Price of the underlying:**

- The Bourse will capture the settlement price of the underlying BAX futures contract. This will be the price of the underlying.

**Interest rate:**

- The interest rate used will be the rate implied by the settlement price of the BAX futures contract nearest to expiration.

**Volatility:**

- The Bourse will use the implied volatility (per contract month, for puts and calls) obtained from the acting Market Maker. The same volatility will be applied for both calls and puts.

The strike price of the options' series and the time to expiration are the other parameters that will be inserted into the model.

In determining the closing price, the Bourse shall take into account the information provided by the posted strategy, for example; if the SEP 9200 straddle is 98 bid, the total of the closing prices of these two series should not be inferior to 98.

## **4.5 30-DAY OVERNIGHT REPO RATE FUTURES CONTRACTS (ONX)**

### **4.5.1 MAIN PROCEDURE**

The settlement price shall be the weighted average of all trades during the closing range. The closing range is defined as the last three minutes of the trading session for all contract months.

#### **4.5.1.1 Weighted average of closing range trades**

The weighted average will be derived from trades that occurred in the outright months during the closing range. The total volume traded in each outright month must be for 25 or more contracts.

#### **4.5.1.2 Booked orders**

If there is an unfilled order with a higher bid price or lower offer price in a month, this bid or offer will override the settlement price obtained from the weighted average. This order must have been posted for 15 seconds or longer prior to the close and its size must be for a total of 25 or more contracts in each of the months.

#### **4.5.1.3 Remaining balances of booked orders partially executed at the close**

In the case of a booked order as stipulated in paragraph 4.5.1.2 above, which would be only partially executed, the trades during the closing

period as well as the remaining balance of booked orders will be considered to establish the settlement price.

Example 1: If there is a booked order for 25 ONX contracts at 97.92 and 15 of those contracts are executed, the 10 remaining contracts, if they are still present on the market at the same price, will be considered to establish the required minimum of 25 contracts.

Example 2: If there is a trade of 15 ONX contracts during the closing period at 97.92 and there is a booked order bid for 10 ONX contracts at 97.91 (respecting the required time limit), the bid will be considered in addition to the trades in the closing period to establish a settlement price.

#### **4.5.1.4 Strips and spreads**

All trades and unfilled booked orders for strips and spreads related to any expiry months will be ignored.

### **4.5.2 FIRST ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.5.1, the following ancillary procedure will apply.

#### **4.5.2.1 Weighted average of trades on strategies**

The settlement price shall be the weighted average of the trades on the strategies traded during the last five minutes provided the volume for the strategy taken into account was of 25 or more contracts.

#### **4.5.2.2 Booked orders**

If there is an unfilled order with a higher bid or lower offer, this bid or offer will override the settlement obtained from the weighted average described in 4.5.2.1. It has to have been posted for three minutes or longer prior to the close and the size must be for 25 or more contracts.

### **4.5.3 SECOND ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.5.1 and the ancillary procedure in 4.5.2, the following ancillary procedure will apply.

#### **4.5.3.1 Differential with the previous contract month's settlement price**

The settlement price will be defined by a price that reflects an appropriate differential with the settlement price of the previous contract month always starting with the contract month closest to expiry.

#### **4.5.3.2 Conflicts between spreads**

If two spreads are in conflict, the calendar spread closest to expiry will have priority.

#### 4.5.4 THIRD ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.5.1 and the ancillary procedures in 4.5.2 and 4.5.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on the available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

### 4.6 FUTURES CONTRACT ON CARBON DIOXIDE EQUIVALENT (CO<sub>2</sub>e) UNITS

#### 4.6.1 MAIN PROCEDURE

The settlement price shall be the weighted average of all traded prices during the closing range. The closing range is defined as the last fifteen minutes of the trading session for all contract expiries.

- **Booked orders**

If there is an unfilled order with a higher bid or lower offer in a particular contract expiry, this bid or offer will override the settlement price obtained from the weighted average. This order must have been posted for 20 seconds or longer prior to the close and its size must be for 10 contracts or more.

- **Last trades**

If there are no trades in the last fifteen minutes of trading, then the last trade will be taken into account while still respecting posted bids and offers in the market.

#### 4.6.2 FIRST ANCILLARY PROCEDURE

When two contracts expiries and the spread are trading (calendar roll), the following ancillary procedure will apply.

- The contract having the earliest expiry must be settled first.
- The spread between the two contracts must be settled next by taking into account the last fifteen minutes average trading price and by examining the trades executed during the previous 30 minutes.
- The settlement price for the far-dated contracts corresponds to the difference between the settlement price of the contract having the earliest expiry and the value of the spread.

#### **4.6.3 SECOND ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.6.1 and the ancillary procedure in 4.6.2, the following ancillary procedure will apply.

Market officials will post a settlement price that will reflect the same differential that was applied on the previous trading day. The settlement price will be adjusted accordingly to respect that contract's previous settlement price.

#### **4.6.4 THIRD ANCILLARY PROCEDURE**

In the absence of the items required to apply the main procedure in 4.6.1 and the ancillary procedures in 4.6.2 and 4.6.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on available market information. They may also disregard any event (a trade, a bid or an offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

Market officials will register in the "daily settlement price record" the criteria considered for determining the settlement price.

**PROCEDURES FOR THE EXECUTION OF BLOCK TRADES**

- a) Once a block trade has been arranged, in accordance with the predetermined minimum quantity threshold level as determined and published by the Bourse, details of the block trade must be reported to the Bourse by contacting a market official of the Bourse’s Market Monitoring Department at 1-888-693-6366 or at (514) 871-7871 within the period of time prescribed by the Bourse.
- b) Approved participants for both the seller and buyer must complete and submit the Block Trade Reporting Form (Attachment I) or such other notification as prescribed by the Bourse to a market official of the Bourse’s Market Monitoring Department for validation.
- c) A market official will check the validity of the block trade details submitted by the approved participant(s).
- d) Confirmation by a market official of a block trade transaction will not preclude the Bourse from initiating disciplinary procedures in the event that the transaction is subsequently found to have been made other than in compliance with the rules.
- e) Once the block trade has been validated, the following information with respect to the block trade will be disseminated by the Bourse:
  - i) date and time of transaction;
  - ii) security(ies) or derivative instrument(s) and contract month(s);
  - iii) price of each contract month(s) and strike price(s) (as applicable); and
  - iv) volume of each contract month.
- f) Upon request by the Bourse the approved participant who arranges a block trade must provide satisfactory evidence that the block trade has been arranged in accordance with the Rules of the Bourse. Failure to provide satisfactory evidence of compliance with these Rules may result in the initiation of disciplinary action.

In accordance with article 6380 of the Rules of Bourse de Montréal Inc. (the “Bourse”), the following are the eligible securities and derivative instruments, the relevant prescribed time delays and the minimum quantity thresholds for the execution of block trades.

<b>ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS</b>	<b>PRESCRIBED TIME DELAY</b>	<b>MINIMUM QUANTITY THRESHOLD</b>
	(As soon as practicable and in any event within the following time delay)	
<b>Thirty-day Overnight “Repo” Rate Futures Contracts (ONX):</b>	15 minutes	1,000 contracts
<b>Ten-year Government of Canada Bond Futures Contracts (CGB):</b>	15 minutes	2,000 contracts

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	PRESCRIBED TIME DELAY	MINIMUM QUANTITY THRESHOLD
<b>Two-year Government of Canada Bond Futures Contracts (CGZ):</b>	15 minutes	500 contracts
<b>Thirty-year Government of Canada Bond Futures Contracts (LGB)</b>	15 minutes	500 contracts
<b>Five-year Government of Canada Bond Futures Contracts (CGF)</b>	15 minutes	500 contracts
<b>Options on Three – month Canadian Bankers Acceptance Futures Contracts (OBX)</b>	15 minutes	2,000 contracts



**Block Trade Reporting Form**

Approved participants must complete all sections of this form legibly and accurately.

This form is to be completed and faxed to Market Monitoring at (514) 871-3592.

A market official can be reached at 1-888-693-6366 or at (514) 871-7871.

<b>TIME AND DATE OF TRADE:</b>	
<b>EXECUTING PARTICIPANT NAME AND TRADING ID (BUY):</b>	
<b>CLEARING FIRM NAME AND ID (BUY):</b>	
<b>EXECUTING PARTICIPANT NAME AND TRADING ID (SELL):</b>	
<b>CLEARING FIRM NAME AND ID (SELL):</b>	
<b>CONTACT PHONE NUMBER:</b>	
<b>CONTACT FAX NUMBER OR E-MAIL ADDRESS:</b>	

Derivative Instruments	Future Contract/ Call/ Put	Contract Month	Option Strike Price (if applicable)	Number of Contracts	Price	Strategy Type* (if applicable)

For Montréal Exchange Staff Only:

**Time and Date of receipt:** \_\_\_\_\_

**Montréal Exchange authorized signature:** \_\_\_\_\_

The details on this form are accepted by the Montréal Exchange strictly on the understanding that the Montréal Exchange accepts no responsibility nor liability for the accuracy or completeness of the details as provided by the approved participant.

\* Each leg of a strategy trade should be listed separately.