



<input type="checkbox"/>	Trading – Interest Rate Derivatives	<input checked="" type="checkbox"/>	Back-office - Options
<input checked="" type="checkbox"/>	Trading – Equity and Index Derivatives	<input checked="" type="checkbox"/>	Technology
<input type="checkbox"/>	Back-office – Futures	<input checked="" type="checkbox"/>	Regulation
		<input type="checkbox"/>	MCeX

CIRCULAR
March 18, 2011

SELF-CERTIFICATION

**IMPLEMENTATION OF INTRADAY USER DEFINED STRATEGIES
AMENDMENT TO THE PROCEDURES FOR THE CANCELLATION OF TRADES
AND
INTRODUCTION OF NEW PROCEDURES APPLICABLE TO THE EXECUTION OF
STRATEGIES INVOLVING OPTIONS**

The Rules and Policies Committee of Bourse de Montréal Inc. (“**Bourse**”) has approved an amendment to the *Procedures for the cancellation of trades* (the “**Cancellation Procedures**”) as well as new *Procedures applicable to the execution of strategies involving options* (the “**New Procedures**”). Bourse wishes to advise Approved Participants that the amendment to the Cancellation Procedures and the New Procedures were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

The new version of the Cancellation Procedures and the New Procedures, that you will find attached, will become effective **on March 21, 2011**. Please note that these will also be available on Bourse’s website (www.m-x.ca).

Bourse will advise Approved Participants of the exact date of implementation of intraday user defined strategies (“**UDS**”).

The amendment to the Cancellation Procedures and the New Procedures are intended to allow the implementation of UDS for the benefit of the Bourse’s equity options, currency options, options on exchange-traded funds and index options markets.

For further information, please contact Antonio Discenza, Senior Manager, Market Operations, Financial Markets, at 514 871-3548 or at adiscenza@m-x.ca, or François Gilbert, Vice-President, Legal Affairs (Derivatives), at 514 871-3528 or at legal@m-x.ca.

François Gilbert (s)
Vice President, Legal Affairs, Derivatives
General Secretariat and Legal Affairs

Circular no. : 047-2011

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. PROCEDURES' LIMITATION

The present procedures have a limited application in the case of trading sessions during which the underlying exchange-traded products are not open for trading.

In the event of erroneous trades during such trading sessions, the Market Operations department of the Bourse will not establish a No Cancel Range. As a result, such trades will not be adjusted by the Market Operations department of the Bourse and will stand at the traded price level unless both parties consent to cancel the erroneous trade. In such case the trade will be cancelled by the Market Operations department of the Bourse.

During trading sessions where the underlying exchange-traded instruments are not open for trading, a trading range (based on previous day's settlement price) will be established by the Bourse. Trading will be allowed only within that range for that given session (orders outside of that trading range will not be accepted by the system). Should either the high or the low of that range be reached, trading will be allowed at that limit level only until the market re-aligns itself back within the trading range.

5. DESCRIPTION

5.1 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.

5.2 IMPLIED ~~SPREAD-STRATEGY~~ ORDERS

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

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

“Strategy”: An instrument composed of two or more legs, including spreads

A ~~spread-strategy~~ trade resulting from an implied ~~spread-strategy~~ 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-strategy~~ order will be treated as if the ~~spread-strategy~~ 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-strategy~~ trade resulting from an implied ~~spread-strategy~~ 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)~~.

5.3 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
-----------------------	-----------

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 <u>Spreads Strategies</u> : - Regular <u>spread strategy</u> orders - Implied <u>spread strategy</u> orders	5 basis points <u>5 to 10 basis points</u> ; <u>Sum of the spread's strategy's individual legs' increments.</u>
Options on Three-Month Canadian Banker's Acceptance Futures	5 basis points
Government of Canada Bond Futures	40 basis points
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX Indices	1% of the acceptable market price of these futures contracts
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
<u>Equity, Currency, ETF and Index Options</u> 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
<u>Equity, Currency, ETF and Index Options Strategies</u> : - Regular <u>strategy orders</u> - Implied <u>strategy orders</u>	<u>Sum of the strategy's individual legs' increments</u>
Sponsored Options Price ranges:	
\$0.001 to \$0.99	\$0.25
\$1.00 up	\$0.50
Single Stock Futures	\$2.00
Futures Contracts on Canadian Crude Oil	5% of the acceptable market price of these futures contracts.

5.4 TRADE PRICE INSIDE THE NO CANCEL RANGE

If the Market Supervisor determines that the price of the reported 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.

5.5 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.

5.6 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.

5.7 MULTIPLE MARKET MAKER TRANSACTIONS ON EQUITY, ~~AND~~ 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.

5.8 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.

PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING OPTIONS

1. OBJECTIVE

The objective of these procedures is to provide and facilitate the trading of strategies involving equity options for approved participants. For the purposes of these procedures, equity options also include options on indices, currencies and exchange-traded funds. Approved participants may create user-defined strategies (“**UDS**”) via individual trading terminals which allow customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal Inc.’s (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 866 576-8836 or 514 871-7877 for assistance in creating a UDS, or in presenting an options strategy to designated market makers and, when applicable, ensuring its manual execution in the Bourse’s trading system.

2. DESCRIPTION

Creation by Approved Participant

An approved participant requests the creation of a UDS instrument by sending a message to the Bourse’s trading system in any of the supported protocols (SAIL, FIX or STAMP). This message contains the parameters of the strategy the approved participant wishes to display.

Bourse will determine from time to time the strategy types that will be accepted by the UDS functionality, and will notify the market of such acceptance criteria.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument. If the strategy is not accepted by the UDS functionality, an error message will be returned to the approved participant submitting the message.

A throttling mechanism is engaged in order to limit the number of strategy instruments created by an approved participant. Each approved participant is configured by MOD with a maximum number of instrument creation requests per trading day. Bourse will determine that maximum number depending on the capacity of its systems and will notify the market of such number. If the counter falls to zero, the approved participant is not able to create any new strategy instrument on that day. Conversely, the counter is credited if a newly created strategy instrument generates at least one trade during that trading session.

Creation by MOD

If an approved participant does not have the capability to create a UDS, the approved participant may contact the MOD and request the creation of the UDS. The UDS must conform to the acceptance criteria as determined by Bourse from time to time.

The UDS functionality will validate that the strategy created is among those that are accepted by the system. If accepted, the newly created strategy instrument will be broadcast to the market via the Bourse’s High Speed Vendor Feed, similar to the broadcast of any instrument.

In such cases, the MOD's assistance is limited to creating the UDS. Approved participants are responsible for entering orders.

Execution by MOD

If a strategy can not be created and broadcasted using the UDS because the strategy type is not accepted by Bourse, or because the approved participant does not have the capability to create and place orders on a UDS, the approved participant may submit a strategy order using the following procedure:

- A) The approved participant must contact the MOD and indicate its option strategy. The information provided must include the option series involved, the quantity ratio, the price and the total quantity of the order. Approved participants must have received and time-registered their order prior to contacting the MOD. If the intended strategy includes an equity leg, the approved participant must also indicate the reference price of the underlying interest and the number of shares to be executed in the strategy.
- B) The MOD will contact qualifying market makers assigned to the option class. A qualifying market maker is defined as a market maker that is showing a bid/ask market no wider than the no-bust range of that instrument, with a minimum of ten contracts per side. The MOD will respect the following procedure:
 - (i) For strategies involving less than 50 contracts per leg, market makers will be contacted individually as their turn comes up, according to a rotation kept by the MOD;
 - (ii) For strategies involving between 50 and 99 contracts per leg, market makers will be contacted by groups of two, according to their rank on the rotation;
 - (iii) For strategies involving 100 contracts or more per leg, all qualifying market makers will be contacted.

In the event that a strategy is comprised of multiple legs, the MOD will take into account the option with the furthest expiry to determine which participating market makers will be contacted. Qualifying market makers will be contacted and shown the strategy as submitted by the approved participant. If the market maker(s) accepts the prices provided by the MOD, the transaction will be entered and broadcast to all relevant parties (approved participants, market makers, and stock exchange, if necessary).

- C) The market makers may provide responding bids, offers and quantities:
 - (i) If market makers choose to participate on the strategy, they must be willing to trade all parts inherent to the transaction (all series, shares) but they will not be obligated to trade the entire quantity
 - (ii) If a particular market maker is not available within 15 seconds of the market supervisor of the MOD initiating the telephone call, no additional attempts to contact him will be made. The market maker should provide an answer to the MOD within approximately 30 seconds of the strategy description given by the MOD. Allowance will be made for a longer response time in the case of a particularly complex strategy. If all attempts fail the order will be rejected.

- D) In some situations where the strategy can not be executed, the MOD may inform the approved participant of the best corresponding bid/offer as well as the corresponding quantities obtained by market makers. Once the details of the transaction are negotiated and confirmed, information on the transaction will be entered into the Bourse's trading system by the MOD and broadcast to the marketplace. The strategy trade will be broadcast via the Bourse's Web site and the leg prices and volumes will be disseminated via the Bourse's data feed. If the transaction includes an equity leg and the option leg has been executed, the MOD will submit the equity portion of the strategy to the venue where the equity is traded.

Execution of a cross transaction on a strategy involving options – Transactions with a 50% guaranteed minimum will not be accepted electronically – Please refer to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions*.