



CIRCULAR 063-20

April 20, 2020

REQUEST FOR COMMENTS

AMENDMENTS TO ARTICLE 6.201 OF THE RULES OF BOURSE DE MONTREAL INC. TO UPDATE THE AVERAGE PRICE TRANSACTIONS SECTION

On March 17, 2020, the Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) approved amendments to article 6.201 of the Rules of the Bourse in order to adapt its content to an electronic trading model and to introduce a new Average Price Service that will be offered by the Bourse.

Comments on the proposed amendments must be submitted at the latest on **June 20, 2020**. Please submit your comments to:

Alexandre Normandeau
Legal Counsel
Bourse de Montréal Inc.
1800-1190 av des Canadiens-de-Montréal
P.O. Box 37
Montreal, Quebec H3B 0G7
E-mail: legal@tmx.com

A copy of these comments shall also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^e Philippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640 Laurier boulevard, suite 400
Québec (Québec) G1V 5C1
Fax : (514) 864-8381
E-mail: consultation-en-cours@lautorite.qc.ca

Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file. Unless specified otherwise, comments will be published anonymously by the Bourse.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

Process for Changes to the Rules

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).



**AMENDMENTS TO ARTICLE 6.201 OF BOURSE DE MONTREAL INC. TO UPDATE THE AVERAGE
PRICE TRANSACTIONS SECTION**

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I. DESCRIPTION

Bourse de Montréal Inc. (the “Bourse”) hereby proposes to amend the content of article 6.201 regarding Average Price Transactions to adapt its content to an electronic trading model and to introduce a new Average Price Service (“APS”) that will be offered by the Bourse, an enhancement that will allow Approved Participants (“Participants”) to efficiently manage post-trade allocations to client accounts.

Article 6.201 describing the requirements for Average Price Transactions has been updated as part of the rules modernization project in 2018. The modifications made were to accommodate the shift from a floor trading environment to an electronic trading environment, but focused on changing specific terms rather than adapting the language on how the process of position transfer at an average price evolved throughout the years. The current article 6.201 on Average Price Transactions contains references that were meaningful when the trading floor was still up and running but are no longer relevant since the introduction of the electronic trading model. Furthermore, the proposed modification will clarify the requirements regarding average pricing.

The proposed changes were also required as the Bourse plans to make a new APS service available to Participants, who may choose to use it in order to facilitate the management of trade allocations by brokers at the end of the day. Based on multiple Participants’ feedback, the Bourse decided to prioritize the project to develop an APS tool to enhance its post-trading service offering. Having the ability to manage position transfer at an average price directly within the Bourse’s trading system should benefit the whole market. The implementation of the APS tool will also align the Bourse with international standards, as major derivative exchanges have been offering this facility for many years.

II. PROPOSED AMENDMENTS

The Bourse proposes to update the article 6.201 related to Average Price Transactions. Specifically, the Bourse wants to remove the obsolete language referencing old floor trading practices and include the option to perform Average Price Transactions using the new APS tool. The proposed language ensures that the rule better reflects the market practices for transferring positions at an average price in client accounts during the day.

III. ANALYSIS

a. Background

In January 2019, the Bourse implemented a completely new Rulebook that included a new Rules structure, updated terminology (to ensure consistency throughout the Rules) and the abrogation of articles that are no longer relevant or that are redundant. As part of this process, article 6.201 describing the requirements for Average Price Transactions has been updated. The modifications made at that time focused on changing specific terminologies¹ but did not review the process relating to an Average Price Transactions. The article needed to be reviewed and adapted to better reflect how such a post-trade service has evolved over the years.

¹ Removing “floor trading” references and replacing them with “electronic trading” nomenclature

Moreover, the Bourse is in the process of making a new APS tool available to market participants, to facilitate the management of trade allocations by brokers at the end of the day. Up until now², the transfer of positions from an inventory account to client accounts at an average price was allowed and possible, but the average price calculation and subsequent allocations were handled by Participants themselves via their own proprietary average pricing system. The implementation of this new tool seeks to facilitate position transfer to client accounts while minimizing the risk of errors.

b. Objectives

The objective of the proposed amendments is to enhance the language of article 6.201 related to average pricing so that it becomes aligned with current practices in an electronic trading environment and integrates the new APS tool developed by the Bourse, which Participants may opt to use.

The specific goals of the proposed amendments to the article are:

- Remove references relevant to a floor trading environment only;
- Add clarity to the language used in the article and requirements relating to average pricing;
- Include a reference to the new APS tool offered by the Bourse as an alternative to tools Participants may be using.

c. Comparative Analysis

To ensure its rules are accurately reflecting the current trading environment, the Rulebook of the Bourse should be continuously updated as trading practices evolves.

CME and Eurex have specific mentions on their websites describing their APS offering³. In addition, article 553 of CME’s rule chapter five⁴ contains requirements on average price trades, similarly to what the Bourse intends to clarify with its proposed amendments. With the proposed amendments, both CME and the Bourse will be aligned with their average price trade requirements.

Average price transactions section	MX and CME rules
Applicability	Position transfer to client accounts
Trigger	Client must request average price prior to order entry

² Since the implementation of the electronic trading environment.

³ <https://www.cmegroup.com/education/articles-and-reports/cmcs-average-pricing-algorithm.html>
https://www.eurexclearing.com/clearing-en/transaction-management/transaction-management-listed-derivatives/average_pricing

⁴ <https://www.cmegroup.com/content/dam/cmegroup/rulebook/CBOT/I/5.pdf>

Average price transactions calculation	With the Exchange's Average Price System or by a proprietary average pricing system
Requirements	The average price must be confirmed to each client account. Participants must be able to provide clients with full details of the execution of the Transaction in a timely manner. Participants must maintain records of each individual Trade and of the transfer.

d. Analysis of Impacts

i. Impacts on Market

Updating article 6.201 related to Average Price Transactions should have no impact on the market as it is simply aiming at adapting the Rules to the electronic trading environment. If anything, the introduction of the newly developed APS tool should help market participants in managing post-trade allocations, but because this solution is optional, the current market practice for doing position transfer at average price will still be conserved for those who prefer that option.

ii. Impacts on Technology

The update of the article 6.201 does not have a direct impact on technology since it is essentially a rewording to make it relevant in the electronic trading environment. However, some technological developments are required by the Bourse in order to offer the new APS tool mentioned above. This new tool will likely enhance the post-trade experience of market participants should they elect to use it. The proposed changes should have no impact on the technological systems of the Bourse's approved participants or of any other market participants.

iii. Impacts on regulatory functions

The proposed changes should have no impact on the regulatory functions of the Bourse.

iv. Impacts on clearing functions

The proposed changes should have no impact on the clearing functions of CDCC, on CDCC's Rules and Operations Manual, nor on CDCC's Clearing Members, or other Industry participants dealing with CDCC.

v. Public Interest

The Bourse is of the view that the proposed amendments are not contrary to the public interest. In fact, the public and market participants are generally requesting clear rules that are consistent with the best practices of other international derivatives exchanges.

Since the purpose of these amendments is to clarify the article pertaining to Average Price Transactions to make it relevant and applicable in an electronic trading context, the Bourse

considers that these amendments are in the public interest. The Bourse is of the view that the present initiative will improve market efficiency as it will enhance the description of the Average Price Transactions section of its Rules.

IV. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the Autorité des marchés financiers, in accordance with the regulatory self-certification process, and to the Ontario Securities Commission for information purposes. The proposed amendments will take effect immediately thereafter.

V. ATTACHED DOCUMENTS

Proposed amendments are attached.

PROPOSED MODIFICATIONS

Blackline version

Article 6.201 Average Price Transactions

- (a) Approved Participants, at the request of a client, may accumulate a Futures Derivative Instrument position in an inventory account and transfer this position to the Client Account at an average price. Such transfer must be done through the Average Price Service functionality offered by the Bourse, or alternatively, submitted by Approved Participants using an average price calculated through a proprietary average pricing system. This may only be done if the Approved Participant has a firm time stamped order from the client before accumulating the position.
- (b) The Bourse requires that confirmations to clients of average price Trades must indicate that the Transaction price is an average price. The Approved Participant must be able to provide clients with full details of the execution of the Transaction in a timely manner. Approved Participants must also maintain records of each individual Trade and of the transfer, which must be available to both the client and regulatory authorities on request.
- ~~(b)(c) This procedure is required to ensure that the transfer of position does not represent a change in beneficial interest (i.e., the client is the beneficial owner of the Futures in the inventory account at all times).~~
- ~~(e) If an Approved Participant has a firm time stamped client order and accumulates Futures in an inventory account for administrative purposes only, the transfer of the position to the client must be done through Over-the-counter Trade (OTC). This procedure is required to ensure that the unwinding does not represent a change in beneficial interest (i.e., the client is the beneficial owner of the Futures in the inventory account at all times). However, if an Approved Participant accumulates a position based on an indication of interest from the client, the transfer of the position to the Client Account must result in a Transaction on the Electronic Trading System.~~
- ~~(d) The date used on the client's confirmation shall be the date of the unwinding, provided that the client requested an average price. Approved Participants must, however, maintain records of each individual Trade and of the transfer, which must be available to both the client and regulatory authorities on request.~~

Article 6.201 Average Price Transactions

- (a) Approved Participants, at the request of a client, may accumulate a Derivative Instrument position in an inventory account and transfer this position to the Client Account at an average price. Such transfer must be done through the Average Price Service functionality offered by the Bourse, or alternatively, submitted by Approved Participants using an average price calculated through a proprietary average pricing system.
- (b) The Bourse requires that confirmations to clients of average price Trades must indicate that the Transaction price is an average price. The Approved Participant must be able to provide clients with full details of the execution of the Transaction in a timely manner. Approved Participants must also maintain records of each individual Trade and of the transfer, which must be available to both the client and regulatory authorities on request.
- (c) This procedure is required to ensure that the transfer of position does not represent a change in beneficial interest (i.e., the client is the beneficial owner of the Futures in the inventory account at all times).