☒	Trading – Interest Rate Derivatives	☒	Back-office - Options
☒	Trading – Equity and Index Derivatives	☒	Technology
☒	Back-office – Futures	☒	Regulation
		☐	MCeX

CIRCULAR
May 9, 2012

SELF-CERTIFICATION

IMPLEMENTATION OF USER-DEFINED STRATEGIES INVOLVING FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS

AMENDMENT TO THE PROCEDURES FOR THE CANCELLATION OF TRADES AND TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND PRE-ARRANGED TRANSACTIONS

AND

INTRODUCTION OF NEW PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved the introduction of new *Procedures Applicable to the Execution of Strategies involving Futures and Options on Futures* (the "**New Procedures**") as well as amendments to the *Procedures for the Cancellation of Trades* (the "**Cancellation Procedures**") and to the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Pre-Arranged Transactions* ("**Cross Procedures**") in order to implement user-defined strategies and allow strategies involving contracts from different product groups, i.e. contracts with different underlyings, for the benefit of the Bourse's futures contracts and options on futures contracts markets. The Bourse wishes to advise Approved Participants that such amendments 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 Procedures and the amended Procedures, that you will find attached, will become effective on **May 14, 2012**. Please note that these will also be available on Bourse's website (www.m-x.ca).

The Bourse will proceed with the publication of a circular indicating the acceptance criteria and the non exhaustive list of eligible strategies under the New Procedures.

For further information, please contact François Gilbert, Vice-President, Legal Affairs, Derivatives, at 514 871-3528 or at legal@m-x.ca.

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Vice President, Legal Affairs, Derivatives

Circular no. : 072-2012

PROCEDURES APPLICABLE TO THE EXECUTION OF STRATEGIES INVOLVING FUTURES AND OPTIONS ON FUTURES

1. OBJECTIVE

The objective of these procedures is to provide for and facilitate the trading of strategies involving futures contracts and options on futures contracts from the same product group, .i.e. contracts with the same underlying (“**Intra-Group Strategies**”) as well as from different product groups, .i.e. contracts with different underlyings (“**Inter-Group Strategies**”). Strategies involving futures contracts and options contracts on such futures contracts are Inter-Group Strategies. Approved participants may create user-defined Intra-Group or Inter-Group Strategies (each, a “**UDS**”) via individual trading terminals which allow for customized strategies to be disseminated and traded. When not feasible, an approved participant must contact Bourse de Montréal inc. (“**Bourse**”) Market Operations Department (“**MOD**”) at 1 888 693-6366 or 514 871-7871 for assistance in creating a UDS.

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 in real time 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.

PROCEDURES FOR THE CANCELLATION OR ADJUSTMENT 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 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. LIMITATIONS FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS NOT OPEN FOR TRADING

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.

4.1 ORDER ENTRY ERROR TRADES

During such trading sessions, the Market Operations Department of the Bourse ("Market Operations") will not establish a No Cancel Range. As a result, during such trading sessions, no trade shall be adjusted by the Market Operations and all trades will stand at the traded price level unless one of the parties to the trade reports an order entry error ("error trade") and both parties consent to cancel the resulting trade. Therefore, an error trade identified as such by a party to the trade and which both parties consent to cancel shall be cancelled by the Market Operations. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

4.2 TRADING RANGE

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

4.3 EARLY SESSION NO CANCEL RANGE

Notwithstanding Section 4.1, during early sessions, the last traded price registered in the underlying security during that session on a Recognized Exchange or an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation ("Canadian ATS") shall be used to determine the No Cancel Range. If the Market Supervisor determines that the price of the trade executed during the early session was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the trade executed during the early session was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

5. DESCRIPTION FOR TRADING SESSIONS DURING WHICH THE UNDERLYING IS OPEN FOR TRADING OR WHOSE VALUE IS READILY AVAILABLE

5.1 DETECTION AND DELAYS

a) Trades Resulting from an Order Entry Error

Approved participants have the responsibility to report trades resulting from an error trade to the Market Operations without delay. As soon as an error trade resulting from an order entry error is identified by the approved participant, the approved participant must request an adjustment or cancellation of the error trade from a Market Supervisor of the Bourse by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366. If the Market Supervisor determines that the price of the error trade was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the error trade was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

b) Transactions Detrimental to the Normal Operation or Quality of the Market

If the Market Operations identifies transactions that are deemed detrimental to the normal operation or quality of the market, market supervisors can adjust or cancel the transaction. For the purpose of the present procedures, trades executed at a price outside the No Cancel Range shall be deemed transactions detrimental to the normal operation or quality of the market. If the Market Supervisor determines that a transaction detrimental to the normal operation or quality of the market has occurred, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

5.2 IMPLIED 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.

"Implied strategy orders": Orders generated by the implied pricing algorithm composed of regular orders, one order for each individual leg.

"Regular strategy orders": Orders routed by approved participants to the Montréal Exchange trading system on instruments composed of two or more legs.

A strategy trade resulting from an implied strategy order is in reality composed of two or more separate regular orders, one order for each individual leg. For the purposes of this procedure, if an error trade occurs on an implied strategy order, the strategy trade will be deemed to have been executed using separate regular orders for each individual leg.

As a result, the prescribed increment utilized to establish the No Cancel Range to adjust an error strategy trade resulting from an implied strategy order will be at least the increment on one of the individual legs and at the most, the sum of each individual legs' increments.

5.3 VALIDATION – NO CANCEL RANGE

The No Cancel Range is defined as the price interval within which a trade shall not be cancelled outright or adjusted by the Market Operations.

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 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 Strategies: - Regular strategy orders - Implied strategy orders	 5 basis points Sum of the strategy's individual legs' increments.
Options on Three-Month Canadian Banker's Acceptance Futures	5 basis points

DERIVATIVE INSTRUMENT	INCREMENT
Government of Canada Bond Futures - Regular strategy orders	40 basis points 20 basis points
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX Indices - Regular strategy orders	1% of the acceptable market price of these futures contracts 5% of the increments for the outright month
30-Day Overnight Repo Rate Futures Regular strategy orders	5 basis points 5 basis points
Overnight Index Swap Futures	5 basis points
Overnight Index Swap Futures – OIS Strategies: - Regular strategy orders - Implied strategy orders	 5 basis points Sum of the strategy's individual legs' increments.
Futures and Options on Futures Inter-Group Strategies: - Regular strategy orders - Implied Strategy orders	Sum of strategy's individual legs' increments
Equity, Currency, ETF and Index Options Price ranges: $0.00 to $5.00 $5.01 to $10.00 $10.01 to $20.00 $20.00 up	 $0.10 $0.25 $0.50 $0.75
Equity, Currency, ETF and Index Options Strategies: - Regular strategy orders - Implied strategy orders	 Sum of the strategy's individual legs' increments
Sponsored Options Price ranges: $0.001 to $0.99 $1.00 up	 $0.25 $0.50
Canadian Share Futures Contracts Regular and extended sessions: Early session:	 1. 0.50$, if the acceptable market price of these futures contracts is less than 25$; 2. 1.00$, if the acceptable market price of these futures contracts is equal to or higher than 25$ but less than 100$; 3. 1% of the acceptable market price of these futures contracts if the acceptable market price of these futures contracts is equal to or higher than 100$. 5% of the acceptable market price of these futures contracts
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 error trade was inside the No Cancel Range, then the trade will be maintained and no further action will be taken unless both parties to the error trade agree to the cancellation.

Error trades that both parties have agreed to cancel, can be cancelled within the trading session (early, regular or extended) during which they have occurred. The Market Operations shall proceed with the agreed upon cancellation of the error trade within the 15 minutes that follow the execution of the trade as prescribed by article 6381 of the Rules of the Bourse.

5.5 TRADE PRICE OUTSIDE THE NO CANCEL RANGE

When a trade with an execution price outside the No Cancel Range is reported to Market Operations as an error, or otherwise detected by Market Operations, the Market Supervisor will determine whether the trade price is within or outside the No Cancel Range for the particular derivative instrument.

If the Market Supervisor determines that the price of the trade is outside the No Cancel Range, then the Market Supervisor will endeavor to contact all parties involved in the transaction to advise them of the situation.

a) General Rule

The trade with an execution price that falls outside the No Cancel Range shall be adjusted by the Market Operations to the limit of the No Cancel Range.

The Market Operations will adjust error trades in the best interests of the market and the participants.The main objective when adjusting error trades is to minimize the impact for all market participants involved in the error trades and more particularly those who had a regular order in the order book.

b) Exceptions

However, in the following circumstances, the trade will be cancelled by Market Operations:

1. Both parties to the trade can be contacted within a reasonable delay and agree to the cancellation of the trade.

2. Neither party to the trade is either an approved participant or the registered holder of a SAM ID.

c) Implied Orders

Under the General Rule, the trades with an execution price that falls outside the No Cancel Range and that have not been cancelled will be adjusted to the limit of the No Cancel Range. In such a case, if the trade involved a linked implied order(s), the initiator of the original error trade will be responsible for the trade resulting from the linked implied order(s). The initiator of the error may therefore end up being party to the trades resulting from the linked implied order(s).

d) Decision

A decision to cancel or adjust will be rendered by a Market Supervisor within 30 minutes following the communication of the error and cancellation request by one of the parties, or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

5.6 OTHER SITUATIONS JUSTIFYING THE CANCELLATION OF TRADES

The Market Operations will review all circumstances surrounding a trade 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 may, in the best interest of the market and the participants, cancel trades resulting from such executions.

In case an underlying instrument experiences excessive volatile price swings, the exchange on which the underlying instrument is listed may freeze the instrument and may adjust any trades that fall outside the context of the market. When Market Operations becomes aware of such a freeze, the Bourse will freeze the corresponding derivative instrument. If pending orders in the corresponding derivative instrument are executed before the Market Operations can manually freeze the derivative instrument the Market Operations will cancel trades resulting from such executions.

5.7 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 market maker.

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 a transaction subject to Section 5.6 or 5.7 will be rendered by a Market Supervisor within 30 minutes following the cancellation request or detection by Market Operations, in accordance with article 6385 of the Rules of the Bourse.

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 trade 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 trade can not themselves decide to cancel it by making a position transfer through the Canadian Derivatives Clearing Corporation.

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
Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX):		
1st four quarterly months – not including serial months	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Thirty-Day Overnight "Repo" Rate Futures Contracts (ONX):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Overnight Index Swap (OIS):		
Front month	5 seconds	No threshold
Remaining expiry months and strategies	15 seconds	No threshold
Government of Canada Bond Futures Contracts:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on S&P/TSX Indices:		
All expiry months	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO_2e) Units:		
All expiry months and strategies	5 seconds	No threshold
Futures Contracts on Canadian Crude Oil:		
All expiry months and strategies	5 seconds	No threshold
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts:		
All expiry months and strategies	0 second	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):		
All expiry months and strategies	0 second	≥ 250 contracts
All expiry months and strategies	5 seconds	< 250 contracts

Equity and Currency Options:		
All expiry months	0 second	≥ 100 contracts
All expiry months	5 seconds	< 100 contracts

Index Options:		
All expiry months	0 second	≥ 50 contracts
All expiry months	5 seconds	< 50 contracts

Canadian Share Futures Contracts:		
All expiry months and strategies	0 seconds	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts

Futures and Options on Futures Inter-Group Strategies		
All strategies	5 seconds	No threshold

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.