



CIRCULAR 107-21

June 14, 2021

SELF-CERTIFICATION

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. REGARDING TRADE CANCELLATION AND PRICE ADJUSTMENT

On November 4, 2020, the Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) approved amendments to article 6.210 of the Rules of the Bourse pertaining to the trade cancellation and price adjustment. These amendments are being sought in order to provide more transparency to the Bourse’s market participants regarding the time permitted for the Bourse to make a trade cancellation or adjustment and to align the no-review range parameters of some of its instruments with other global exchanges.

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

These amendments attached herewith will become effective on **June 30, 2021**, after market close. Please note that the revised articles will also be available on the Bourse’s website (www.m-x.ca).

The amendments described in the present circular were published for public comment by the Bourse on November 20, 2020 (see circular [200-20](#)). Further to the publication of this circular, the Bourse received comments. A summary of the comments received as well as responses from the Bourse to these comments is attached hereto.

For additional information, please contact Alexandre Normandeau, Legal Counsel, at 438-985-3289 or by email at alexandre.normandeau@tmx.com.

Alexandre Normandeau
Legal Counsel
Bourse de Montréal Inc.

Article 6.210 Trade Cancellation and or Price Adjustment

- (a) In General. The Bourse may adjust Trade prices or cancel Trades when such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the Trading System. Notwithstanding any other provision of this Article, the Bourse may adjust Trade prices or cancel any Trade executed through the Trading System if the Bourse determines in its sole discretion that allowing the Trade to stand as executed may have a material, adverse effect on the integrity of the market or the market's orderly operation. The decision of the Bourse in such matters shall be final.
- (b) Review of Trades, Requests for Review. The Bourse may review a Trade or Trades based upon its analysis of market conditions, including but not limited to market volatility, prices in related markets, or in response to a request for review of a specific Trade by an Approved Participant. An Approved Participant must request review of a Trade by calling the Market Operations Department of the Bourse at 514 871-7871 or 1-888-693-6366 within **3015** minutes of execution; *provided however*, the Bourse, in its sole discretion, may extend the period in which an Approved Participant may request review of a trade up to one hour following execution in extraordinary circumstances.
- (i) Notice to the Parties to the Transaction. Where the Bourse on its own analysis determines to review a Trade or Trades for adjustment or cancellation, or where an Approved Participant has requested review of a specific Trade and that Trade is outside of the No Review Range provided under paragraph g) of this Article, the Bourse will notify the parties to the Trade that the Trade or Trades are under review by the Bourse.
- (ii) Price Adjustments and Cancellations Procedures. Upon making a determination to review a Trade, the Bourse shall, (1) determine, in its sole discretion, the acceptable marker price, and (2) apply the increments provided under paragraph h) in order to determine the limits of the No Review Range.
- (c) Trade Price Inside the No-Review Range. If the Bourse determines that the Trade price is inside the No Review Range, the Bourse will notify the two Approved Participant counterparties to the Trade that the Trade shall stand as executed; *provided however*, the Bourse may cancel such a Trade within 15 minutes of the Trade's execution and within the trading session during which the Trade was executed (early, regular or extended), if both Approved Participant counterparties to the Trade voluntarily consent to cancellation of the Trade.
- (d) Trade Price Outside the No-Review Range. If the Bourse determines that the Trade price is outside of the No-Review Range, the Bourse, after endeavoring to contact the Approved Participant counterparties, shall adjust the price to the limit of the No Review Range. The policy of the Bourse is to favor price adjustment as a remedy over Trade cancellation and to adjust Trades in order to minimize the impact for all market participants involved in the erroneous Trades and particularly those who had a regular

order in the order book. However, the Bourse, in its discretion, may cancel a Trade rather than adjust the price if:

- (i) both parties to the Trade can be contacted within a reasonable delay and agree to the cancellation of the Trade; and
 - (ii) neither party to the Trade is either an Approved Participant or the registered holder of a SAM ID.
- (e) Implied Orders, Implied Strategy Orders. An order generated by the implied pricing algorithm (using regular orders) and registered in the order book by the Electronic Trading System will be considered by the Bourse as though it were a regular order entered into the Trading System by an Approved Participant.
- (i) An implied or regular strategy Trade is considered by the Bourse, as being composed of two regular orders, one for each leg of the strategy Trade. If the erroneous Trade involves a linked implied order(s) and is priced outside the No Review Range, the initiator of the original error Trade will be responsible for the Trade resulting from the linked implied order(s).
 - (ii) The adjustment relating to an erroneous strategy Trade will equal at least the increment between the No Review Range and the traded price on one of the individual legs, and no more than the sum of each individual legs' increments.
- (f) Stop Orders. Trades that have occurred as a result of "stop orders" in the Trading System being triggered by an erroneous Trade are also subject to cancellation by the Bourse acting in his or her sole discretion. The determination of the Bourse shall be final.
- (g) Decision of the Bourse. Market Supervisors shall act as soon as possible after becoming aware of an erroneous Trade. If an error has not been reported to the Market Operations Department within 30 minutes by Approved Participants, or detected by Market Supervisors within 2 hours of execution, the Bourse retains the right to cancel the Trade, adjust the Trade price or refrain from acting. In no event shall the Bourse act later than 8:30 a.m. Eastern Time on the next trading day following the date of the Trade in question.~~The Bourse shall endeavor to determine to adjust or cancel a Trade within 30 minutes following a request to review the Trade, or, as applicable, notice to the market that a Trade or Trades were being reviewed.~~
- (i) If the decision is to cancel the Trade, the Bourse will remove the Transaction as an executed Trade from the records of the Bourse. Upon cancellation of a Trade, the parties, if they choose, may reenter new orders into the Trading System.
 - (ii) If the Bourse determines that a Trade should not be adjusted or cancelled, the parties to the Trade shall not themselves decide to cancel it by making a position transfer through CDCC.

- (h) No-Review Range. The Bourse will determine the limits of the No-Review Range by determining what was the acceptable market price for the Derivative Instrument before the Trade under review occurred based upon 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 once the acceptable market price is established, the Bourse applies the following increments to determine the limits of the No-Review Range;

DERIVATIVE INSTRUMENT	INCREMENT
Three-Month Canadian Bankers' Acceptance Futures – BAX (all quarterly and serial months)	5 basis points
Three-Month Canadian Bankers' 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 Bankers' Acceptance Futures	5 basis points
Two-Year Government of Canada Bond Futures (CGZ) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Five-Year Government of Canada Bond Futures (CGF) - Regular strategy orders - Implied Strategy orders	20 basis points 20 basis points Sum of strategy's individual legs' increments
Ten-Year Government of Canada Bond Futures (CGB) - Regular strategy orders	40 basis points 20 basis points
Thirty-Year Government of Canada Bond Futures (LGB) - Regular strategy orders - Implied Strategy orders	40 basis points 40 basis points Sum of strategy's individual legs' increments
Options on Government of Canada Bond Futures	40 basis points
Futures Contracts on S&P/TSX and S&P/MX Indices and on the FTSE Emerging Markets Index - Regular strategy orders and Basis Trade on Close	1% of the acceptable market price of these Futures Contracts <u>0.25% of the acceptable market price of the Futures Contracts (outright instruments)</u> 5% of the increments for the outright month
One-Month CORRA Futures (COA) - Regular strategy orders - Implied Strategy orders	5 basis points 5 basis points

DERIVATIVE INSTRUMENT	INCREMENT
	Sum of the strategy's individual legs' increments
Three-Month CORRA Futures (CRA) - Regular strategy orders - Implied strategy orders	5 basis points 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: Below \$2.00 \$2.00 to \$5.00 Above \$5.00 to \$10.00 Above \$10.00 to \$20.00 Above \$20.00 to \$50.00 Above \$50.00 to \$100.00 Above \$100.00	\$0.25 \$0.40 \$0.50 \$0.80 \$1.00 \$1.50 \$2.00
Equity, Currency, ETF and Index Options Strategies: - Regular strategy orders - Implied strategy orders	Sum of the strategy's individual legs' increments
Canadian Share Futures Contracts ; and Canadian Share Futures Contracts: Basis Trade on Close <u>(including regular strategy orders)</u>	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\$.
Canadian Shares futures Contracts — Regular strategy orders	1. 0.12\$, if the acceptable market price of these Futures Contracts is less than 25\$; 2. 0.25\$, if the acceptable market price of these Futures Contracts is equal to or higher than 25\$ but less than 100\$; 3. 0.25% of the acceptable market price of these Futures Contracts if the acceptable

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	market price of these Futures Contracts is equal to or higher than 100\$.

2020.01.30, 2020.06.12

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2020.01.30, 2020.06.12

Circular 200-20: Summarized comments and responses

AMENDMENTS TO THE RULES OF BOURSE DE MONTREAL INC. REGARDING TRADE CANCELLATION AND/OR PRICE ADJUSTMENT

No.	Date comments received	Participant Category	Summary of comments	Summary of responses
1.	December 21, 2020	Individual trader	<p>The commenter expressed concerns with the Bourse’s existing trade cancellation and adjustment procedures regarding notices and consent.</p> <p>The commenter mentioned that the Bourse has no recourses through which parties to a trade can contest the Bourse’s decisions.</p> <p>The commenter made several amendment propositions with regard to the publication of cancelled trades, the establishment of an appeal process, and added clarifications on the notices and consents under the trade cancellation and price adjustment procedures.</p>	<p>The Bourse thanks the individual trader for the comments.</p> <p>As the scope of the comments and propositions goes beyond the scope of the changes proposed under circular 200-20, the Bourse will consider such additional propositions outside of the rule changes proposed under circular 200-20.</p>