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CIRCULAR 137-17
September 26, 2017

REQUEST FOR COMMENTS

AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS OF BOURSE DE MONTREAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to the *Procedures applicable to the execution of cross transactions and the execution of prearranged transactions* (the “**Procedures**”). The Bourse intends to harmonize the Procedures by ensuring uniform rules and coverage of all Bourse’s products. The following amendments will impact the futures contracts on the S&P/TSX indices and on the FTSE Emerging Markets Index.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, on October 26, 2017 at the latest. Please submit your comments to:

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Office of the General Counsel
Bourse de Montréal Inc.
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Montréal, Québec H4Z 1A9
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A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
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Montréal (Québec) H4Z 1G3
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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.

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).

Regulatory Amendment Process

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 THE *PROCEDURES APPLICABLE TO THE EXECUTION OF
CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED
TRANSACTIONS OF BOURSE DE MONTREAL INC.***

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I. SUMMARY

Bourse de Montreal Inc. (the “Bourse”) intends to harmonize its *Procedures applicable to the execution of cross transactions and the execution of prearranged transactions* (the “Procedures”) across all Bourse’s products by ensuring uniform rules and coverage of all Bourse’s products, types of trades and trade sizes.

II. ANALYSIS

a. Background

The Bourse’s trading procedures provide specifications on the execution of all types of transactions available at the Bourse including, without limitation, cross transactions, prearranged transactions, block trades, exchange for physical (EFP), exchange for risk (EFR) and substitution of OTC derivative instruments for futures contracts transactions, riskless basis cross transactions, strategies involving options, strategies involving futures and options on futures, and strategies involving share futures (also known as Single Share Futures, or “SSFs”).

b. Description and Analysis of Market Impacts

A cross transaction is a transaction in which orders of opposite sides (“buy” and “sell” orders) originating from the same approved participant but from different accounts are intentionally executed against each other, in the context of the market, in whole or in part as a result of pre-trade discussions.

Such “cross transactions” can be executed on “outright instruments” or on “strategy instruments”. An “outright instrument” is represented by one single futures contract. In such case, a “cross transaction” will refer to a “buy” order sent by the approved participant from one account and a “sell” order sent by the same approved participant from another account. A “strategy” is a type of transaction involving more than one “outright contract”. One example of a “strategy” is a “spread transaction” where a market participant simultaneously buys an “outright contract” on a futures contract of a given maturity and sells an “outright contract” on a futures contract on the same underlying but with a different maturity. As a result, a “cross transaction” on the “strategy” from the above-mentioned example involves simultaneously executing two “outright” orders: one sending a buy order and one sending a sell order on the strategy instrument

Participants to a cross transaction must comply with the rules prescribed by the Bourse regarding, among other topics, prescribed time delays and chronology of orders. For each product, the Bourse’s Procedures specify the prescribed time delay between the input of the orders (the “buy” and the “sell” orders) representing a cross transaction. While for some products the time delay is the same, regardless the size of the transaction, for other products the time delay can take two values, depending on whether the size of a transaction is below or above a specified volume threshold.

c. Comparative Analysis

A representation of the time delays and applicable volume thresholds in their current form for all cross transactions on the Bourse’s products, as prescribed by the Bourse’s Procedures, is presented in Table 1. As illustrated in the table, some products of the Bourse do not enumerate volume thresholds and time delays for strategy instruments. These are denoted by an “Incomplete” status in the corresponding cell, and will form the focus of this analysis.

Table 1: MX procedures - coverage of transaction size scenarios	Outright	Strategies
Three-Month Canadian Bankers’ Acceptance Futures Contracts (BAX): 1st four quarterly months – not including serial months	Complete	Complete
Three-Month Canadian Bankers’ Acceptance Futures Contracts (BAX): Remaining expiry months and strategies	Complete	Complete
Thirty-Day Overnight “Repo” Rate Futures Contracts (ONX): Front month	Complete	Complete
Thirty-Day Overnight “Repo” Rate Futures Contracts (ONX): Remaining expiry months and strategies	Complete	Complete
Overnight Index Swap (OIS): Front month	Complete	Complete
Overnight Index Swap (OIS): Remaining expiry months and strategies	Complete	Complete
Government of Canada Bond Futures Contracts:	Complete	Complete
Futures Contracts on S&P/TSX Indices:	Complete	Incomplete
Futures Contracts on the FTSE Emerging Markets Index:	Complete	Incomplete
Futures Contracts on Canada Carbon Dioxide Equivalent (CO2e) Units:	Complete	Complete
Futures Contracts on Canadian Crude Oil:	Complete	Complete
Options on Three-Month Canadian Bankers’ Acceptance Futures Contracts:	Complete	Complete
Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):	Complete	Complete
Equity, ETF and Currency Options:	Complete	Complete
Index Options:	Complete	Complete
Canadian Share Futures Contracts:	Complete	Complete

Complete = MX procedure specifies time delays for all transaction sizes, either by specifying “No threshold” or by specifying time delays for transaction sizes under and over a given threshold

Incomplete = MX procedure does NOT specify time delays for all transaction sizes

The review has identified that the Procedures cover all transaction sizes for all transaction types (outright and strategies) for all products, with the exception of “strategy” orders on futures contracts on the S&P/TSX indices and on the FTSE Emerging Markets Index.

A detailed analysis of the prescribed time delay for the two futures contracts has revealed that the “Incomplete” status originates from the absence of specifications for prescribed time delay for “strategy” orders on transactions of 100 contracts or more (see Table 2). As both futures contracts with “Incomplete” coverage are “equity and equity index” futures contracts, Table 2 also contains, for comparison purposes, the time delays specified for the only other “Equity and equity index” futures contracts listed on the Bourse, the Canadian Share Futures (also known as Single Share Futures, or “SSFs”).

Table 2: Time delays prescribed by MX procedure	Outright		Strategies	
	< 100 contracts	> 100 contracts	< 100 contracts	> 100 contracts
Futures Contracts on S&P/TSX Indices:				
All expiry months	5 seconds	0 second	5 seconds	MISSING
Futures Contracts on the FTSE Emerging Markets Index:				
All expiry months	5 seconds	0 second	5 seconds	MISSING
Canadian Share Futures Contracts:				
All expiry months	5 seconds	0 second	5 seconds	0 second

d. Proposed Amendments

The current proposal calls for an amendment to the Procedures in order to enumerate the prescribed time delays for cross transactions on “strategy” instruments of 100 contracts or more on the S&P/TSX index futures or on the FTSE Emerging Markets Index futures. The Bourse is of the opinion that the time delays for a cross transaction on a strategy instrument should be “0 second”, such that the time delay is consistent with the time delay on the outright futures contract that make up the strategy.

Rationale

The rationale of the proposal is twofold: (i) to ensure consistency with the prescribed time delay on similar products of the Bourse; and (ii) to ensure consistency with the prescribed time delay for “outright” instruments of 100 contracts or more on S&P/TSX indices or on the FTSE Emerging Markets Index.

a) Consistency with the prescribed time delay on products of the Bourse.

In the case of Canadian Share Futures (the only other “Equity” futures contracts listed on the Bourse), the prescribed time delays for the “strategy” cross transactions are identical to those for “outright” cross transactions for the corresponding volume threshold: for transactions less than 100 contracts the prescribed time delay for both “outright” and “strategy” cross transactions is 5 seconds whereas for cross transactions of 100 contracts or more the prescribed time delay is 0 second for both “outright” and “strategy” cross transactions (see Table 2).

In the case of the FTSE Emerging Markets Index Futures contract, where the prescribed time delay is 0 seconds for outright cross transactions for transactions of 100 contracts or more, and 5 seconds for transactions of less than 100 contracts. However the prescribed time delay for strategy cross transactions is ambiguous as the Procedure does not include such a category as is the case with Single Share futures as illustrated above. This also holds true for S&P TSX index Futures where the prescribed delay for cross transactions on outright contracts is 0 second for volume thresholds of 100 contracts or more, but the Procedures do not include a prescribed delay for cross transaction on strategy instruments of 100 contacts or more (see Table 2).

As a result, we propose that the prescribed time delay for “strategy” cross transactions on the S&P/TSX indices and on the FTSE Emerging Markets Index be 0 second, identical to the time delay for orders of 100 contracts or more on the Canadian Share Futures contracts. The proposed changes should provide a more consistent cross transactions regime across the various equity derivatives products of the Bourse.

b) Correlation with the time delay prescribed for “outright” transactions of 100 contracts or more

As mentioned above, a “strategy” transaction consists of the simultaneous execution of two or more “outright” contracts as a package or instrument. As a result, a “cross transaction” on a “strategy” can be seen as a “series” of simultaneous “cross transactions” on “outright contracts that make up the strategy”.

Given that:

- 1) the time delay on “cross transactions” on “outright contracts” is prescribed at 0 second, and
- 2) there is no need for an additional time delay between the “series” of “cross transactions”,

The Bourse proposes that the prescribed time delays for “strategy instrument” transactions on the S&P/TSX indices and on the FTSE Emerging Markets Index be 0 second provided the transaction size is 100 contracts or more. Additionally all volume thresholds on strategy transactions less than 100 contracts should be assigned a 5 second prescribed time delay.

III. AMENDMENT PROCESS

The Bourse intends to offer participants currently trading “outright” instruments of any size or “strategy” instruments of less than 100 contracts in S&P/TSX indices and on the FTSE Emerging Markets Index the possibility to trade also “strategy” instrument of 100 contracts or more on futures contracts on the two indexes.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

Based on a review of the technological requirements related to cross transactions, the Bourse has concluded that this initiative will not require any development work.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS

The Bourse intends to offer to the participants complete and harmonized procedures for the execution of cross transactions on all the Bourse's products.

VI. PUBLIC INTEREST

Under the current Procedures, a participant wishing to execute a cross transaction of 100 contracts or more on strategies involving any of the two indexes is supposed to execute it in separate "legs" - each constituting a cross transaction on "outright instruments" - thereby requiring additional operational resources (sending, booking, accounting for multiple transactions). By allowing cross transactions of 100 contracts or more on strategies on the two indexes, the Bourse will reduce the participants' workload and efforts, at no additional cost or risk to the Bourse.

VII. EFFICIENCY

The proposed time delays are expected to enhance the financial efficiency of the market participants and leave unchanged the efficiency of the markets.

Financial efficiency

Under the current fee structure, the execution of a strategy cross transaction of 100 contracts or more will not result in an increase in trading fees for participants.

Market efficiency

The market efficiency is expected to remain unchanged, as such transactions can be (and are) executed also under the current crossing Procedures, but as a "series" of cross transactions on "outright instruments" (only with increased operational efforts).

VIII. 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 self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

Schedule A: Revised Procedures

**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 volume thresholds.

Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments

ELIGIBLE PRODUCTS	PRESCRIBED TIME DELAY	MINIMUM VOLUME THRESHOLD
Three-Month Canadian Bankers' Acceptance Futures Contracts (BAX):		
1 st 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 and strategies	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months and strategies	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO₂e) 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, ETF and Currency Options:

All expiry months	0 second	≥ 100 contracts
All expiry months	5 seconds	< 100 contracts
All UDS Strategies	5 seconds	No Threshold

Index Options:

All expiry months	0 second	≥ 50 contracts
All expiry months	5 seconds	< 50 contracts
All UDS Strategies	5 seconds	No Threshold

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
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In accordance with the provisions of article 6380 of the Rules of the Bourse, the following are the eligible products and the minimum quantity thresholds for the execution of cross transactions and prearranged transactions using committed orders.

ELIGIBLE PRODUCTS FOR COMMITTED ORDERS	MINIMUM QUANTITY THRESHOLD
Futures Contracts on S&P/TSX Indices	100 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts	250 contracts
Equity, ETF and Currency Options	100 contracts
Index Options	50 contracts
Canadian Share Futures Contracts	100 contracts

Committed orders may not be used to execute cross or prearranged transactions on eligible products with a prescribed time delay or to execute strategies. 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 approved 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.

Cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

1) Procedure for eligible products with a prescribed time delay

An approved participant wishing to execute a cross or a prearranged transaction must enter the order into the trading system for the total intended transaction volume. The participant must then respect a delay equal to the prescribed time delay before executing an offsetting transaction on the residual volume.

The **residual volume** is the portion of the original volume 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 volume is equal to the original intended transaction volume.

2) Procedure for eligible products without a prescribed time delay for a volume equal to or greater than the minimum volume threshold

If an approved 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;
- 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); or
- the participant(s) can enter the order as a committed order.

3) Procedure for strategies executed via the User Defined Strategy (UDS) Facility

An approved participant wishing to execute a cross or a prearranged transaction on a strategy via the UDS facility 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.

Note: The bundling of orders to meet the admissible minimum volume threshold is not permitted.

4) Equity option, ETF option, index option & currency option transactions with a 50% guaranteed minimum

Cross Transaction

If an approved participant wishes to execute a cross transaction on an option strategy, they must contact a market supervisor and provide details of the intended transaction: total volume, price, side(s) of the transaction on which the approved participant is required to give priority.

Prearranged Transaction

If approved participants intend to execute a prearranged transaction on an option strategy, each approved participant must contact a market supervisor and provide details of the intended transaction: total quantity, price, side(s) of the transaction, and must also identify the approved participant(s) that agreed to submit the opposing order during prenegotiation discussions.

Market makers will be permitted to participate on the transaction up to a total maximum of 50% of the volume of the intended transaction.

The approved participant will be permitted to execute the transaction for the remaining volume (a minimum of 50% plus any volume not taken of the 50% that had been offered to the market makers.)

MISCELLANEOUS

Eligible products, their respective minimum volume 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.

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**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 volume thresholds.

Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments

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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:		
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All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on the FTSE Emerging Markets Index:		
All expiry months and strategies	0 second	≥ 100 contracts
All expiry months and strategies	5 seconds	< 100 contracts
Futures Contracts on Canada Carbon Dioxide Equivalent (CO₂e) 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, ETF and Currency Options:

All expiry months	0 second	≥ 100 contracts
All expiry months	5 seconds	< 100 contracts
All UDS Strategies	5 seconds	No Threshold

Index Options:

All expiry months	0 second	≥ 50 contracts
All expiry months	5 seconds	< 50 contracts
All UDS Strategies	5 seconds	No Threshold

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
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In accordance with the provisions of article 6380 of the Rules of the Bourse, the following are the eligible products and the minimum quantity thresholds for the execution of cross transactions and prearranged transactions using committed orders.

ELIGIBLE PRODUCTS FOR COMMITTED ORDERS	MINIMUM QUANTITY THRESHOLD
Futures Contracts on S&P/TSX Indices	100 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	250 contracts
Options on Ten-Year Government of Canada Bond Futures Contracts	250 contracts
Equity, ETF and Currency Options	100 contracts
Index Options	50 contracts
Canadian Share Futures Contracts	100 contracts

Committed orders may not be used to execute cross or prearranged transactions on eligible products with a prescribed time delay or to execute strategies. 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 approved 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.

Cross transactions and prearranged transactions can only be executed in accordance with one of the following procedures:

1) Procedure for eligible products with a prescribed time delay

An approved participant wishing to execute a cross or a prearranged transaction must enter the order into the trading system for the total intended transaction volume. The participant must then respect a delay equal to the prescribed time delay before executing an offsetting transaction on the residual volume.

The **residual volume** is the portion of the original volume 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 volume is equal to the original intended transaction volume.

2) Procedure for eligible products without a prescribed time delay for a volume equal to or greater than the minimum volume threshold

If an approved 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;
- 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); or
- the participant(s) can enter the order as a committed order.

3) Procedure for strategies executed via the User Defined Strategy (UDS) Facility

An approved participant wishing to execute a cross or a prearranged transaction on a strategy via the UDS facility 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.

Note: The bundling of orders to meet the admissible minimum volume threshold is not permitted.

4) Equity option, ETF option, index option & currency option transactions with a 50% guaranteed minimum

Cross Transaction

If an approved participant wishes to execute a cross transaction on an option strategy, they must contact a market supervisor and provide details of the intended transaction: total volume, price, side(s) of the transaction on which the approved participant is required to give priority.

Prearranged Transaction

If approved participants intend to execute a prearranged transaction on an option strategy, each approved participant must contact a market supervisor and provide details of the intended transaction: total quantity, price, side(s) of the transaction, and must also identify the approved participant(s) that agreed to submit the opposing order during prenegotiation discussions.

Market makers will be permitted to participate on the transaction up to a total maximum of 50% of the volume of the intended transaction.

The approved participant will be permitted to execute the transaction for the remaining volume (a minimum of 50% plus any volume not taken of the 50% that had been offered to the market makers.)

MISCELLANEOUS

Eligible products, their respective minimum volume 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.

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