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

CIRCULAR
October 5, 2011

REQUEST FOR COMMENTS

**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.

Comments on the New Procedures and proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **November 4, 2011**. Please submit your comments to:

Mr. François Gilbert
Vice-President, Legal Affairs, Derivatives
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
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Circular no.: 148-2011

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

*Ms. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
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Appendices

For your information, you will find in appendices an analysis of the New Procedures and proposed amendments as well as the New Procedures and amended Cancellation Procedures and Cross Procedures. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as determined by the *Derivatives Act* (R.S.Q., 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 (SRO) 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 and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the *Derivatives Act* (R.S.Q., chapter I-14.01).

Circular no.: 148-2011

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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

I. OVERVIEW

Bourse de Montréal inc. (the “**Bourse**”) intends to implement user-defined strategies and allow strategies involving contracts from different product groups, i.e. contracts with different underlyings (“**Inter-Group Strategies**”) for the benefit of the Bourse’s futures contracts and options on futures contracts markets, (hereinafter, “**Futures Markets**”).

In order to implement UDS and allow Inter-Group Strategies on the Futures Markets, the Bourse hereby proposes to introduce the new *Procedures Applicable to the Execution of Strategies involving Futures and Options on Futures* (the “**New Procedures**”) and to amend the *Procedures for the Cancellation of Trades* (the “**Cancellation Procedures**”) and the *Procedures Applicable to the Execution of Cross Transactions and the Execution of Pre-Arranged Transactions* (“**Cross Procedures**”).

II. ANALYSIS

A. Nature and Purpose of Proposed Changes

The Bourse currently allows the creation and execution of UDS involving equity options, options on indices, currencies and exchanges-traded funds pursuant to the Bourse’s *Procedures applicable to the execution of strategies on options* (“**Options Strategies Procedures**”), but does not allow the creation and execution of UDS on Futures Markets.

Moreover, in the Bourse’s current trading environment, certain standard Futures Markets strategies involving contracts from the same product group, i.e. contracts with the same underlying (“**Intra-Group Strategies**”), are created by the Bourse either on a routine basis or at the request of approved participants (“**APs**”), but the Bourse does not allow the creation and execution of Inter-Group Strategies.

The Bourse hereby proposes to introduce the New Procedures and amend its Cancellation Procedures and Cross Procedures in order to implement UDS on Futures Markets and allow APs to create Inter-Group Strategies on Futures Markets.

1. The New Procedures

The proposed New Procedures would provide for and facilitate the trading of UDS on Futures Markets and the creation and execution of Inter-Group and Intra-Group strategies via the Bourse's existing UDS functionality.

They would specify that UDS may be created by APs subject to acceptance criteria established and published by the Bourse from time to time. Strategies that would conform to these acceptance criteria would be electronically created and disseminated to all APs via the Bourse's market data feed. However, strategies that would not conform to the acceptance criteria would generate an error message transmitted to the AP that submitted these strategies.

In the event that APs would not be able to create UDS, the proposed New Procedures would provide that APs could contact the Bourse and request the creation of strategies on Futures Markets. These strategies would have to conform to the Bourse's acceptance criteria as well.

2. Amendment to the Cancellation Procedures

The Bourse proposes that the increments applicable to the establishment of the No Cancel Range for regular and implied Inter-Group Strategies on futures and options on futures orders be the sum of the No Cancel Range increments of strategies' individual legs. This level would be consistent with the Three-Month Canadian Bankers' Acceptance Futures (BAX) strategies increments as well as with equity, currency, ETF and index options strategies increments. Any trade outside such No Cancel Range would be, as the case may be, either cancelled or adjusted by Market Supervisors in accordance with the provisions of Section 5.5 of the Cancellation Procedures.

3. Amendment to the Cross Procedures

The Bourse proposes to amend the Cross Procedures to allow for cross and pre-arranged transactions of Inter-Group Strategies on Futures Markets. The proposed time delay for a cross or pre-arranged transaction on Inter-Group Strategies on Futures Markets would be five (5) seconds, which is consistent with the delay applicable to orders on the individual legs comprising the strategy, which, in most cases, is also 5 seconds.

B. Description and Analysis of Impacts

The proposed implementation of UDS on the Futures Markets would offer APs the ability to create Intra-Group and Inter-Group Strategies on Futures Markets and disseminate them to all market participants through the Bourse's existing UDS functionality.

Each strategy would be entered into a separate Central Limit Order Book (CLOB), and implied pricing would be activated between the CLOBs for strategies and the CLOBs for the individual legs of the strategies. Hence, the proposed changes would allow the Bourse to provide, within its trading engine, a CLOB in which Futures Markets strategies

would be managed and which would be maintained separately from the existing CLOBs for Futures Markets contracts.

The implementation of UDS for the benefit of the Futures Markets should offer several important benefits to market participants:

With the proposed changes, APs would be able to create customized strategies on Futures Markets via their trading terminals that are adapted to their trading and risk management needs.

The proposed changes would allow APs to execute strategies they cannot currently execute on the trading engine of the Bourse, which should improve the liquidity and thus the efficiency of Futures Markets.

The use of UDS on Futures Markets would permit the execution of strategies with limited execution risk compared to executing each leg individually.

UDS could be created, listed and disseminated intraday, on a real-time basis, to all market participants, thereby providing accessibility, transparency and liquidity for strategies on Futures Markets.

Liquidity should be further enhanced by the activation of implied pricing on strategies on Futures Markets, allowing individual leg orders to imply strategy orders, and the interaction of strategy orders and individual contract orders to imply other leg orders.

C. Drafting Process

The proposed changes were elaborated internally based on the Bourse's Options Strategies Procedures following technological enhancements to the Bourse's implied pricing functionality.

D. Impacts on Technological Systems

The proposed changes should have no impact on the technological systems of APs and other market participants as UDS on Futures Markets would be created and disseminated through the Bourse's existing UDS functionality.

Some changes to the technological systems of the Bourse are necessary.

E. Benchmarking

Exchange	Inter-group Strategies	Groups Included	Futures Strategies Supported	User Defined Strategies	No Cancel Range Increments	Cross and Pre-arranged Transaction Prescribed Time Delay
CME GROUP (includes	Yes	Futures, Options on Futures	<u>Implied in and Implied out:</u> - Interest Rate Futures	None available for Futures All strategies	Implied Eligible Inter- and Intra-Commodity	On the Globex platform, opposite orders for

<p>CBOT, CME and NYMEX)</p>			<ul style="list-style-type: none"> - Interest Rate Future Spreads (calendar, butterfly and packs) - Commodity Futures - Commodity Future Spreads - Energy Futures - Energy Future Spreads - Metal Futures - Metal Future Spreads 	<p>for Options and Options on futures must be created through the User Defined Strategies functionality.</p>	<p>Futures Spreads Same as the non-reviewable range of the individual legs.</p>	<p>different beneficial owners that are simultaneously placed by a party with discretion over both accounts may be entered into the Globex platform provided that one order is exposed for a minimum of 5 seconds in the case of futures orders or a minimum of 15 seconds in the case of options orders. An order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite another order entered by the same firm only if this other order has been entered immediately upon receipt and has been exposed on the Globex platform for a minimum of 5 seconds for futures orders or a minimum of 15 seconds for options orders.</p>
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NYSE LIFFE	<p>Yes</p> <p>Inter Group Strategies are only offered through the LIFFE's wholesale facility</p>	<p>Futures, Options on Futures, Equity Options</p>	<p><u>Implied in:</u></p> <ul style="list-style-type: none"> - Calendar Spread - Butterfly - Condor - Strips (only where volume quoted 1 lot per leg) - Packs - Bundles <p><u>Implied out:</u></p> <ul style="list-style-type: none"> - Calendar Spread 	<p>None</p>	<p>The NYSE/Liffe expresses their NCR for strategies as percentage of the tick values for the outright months. In the case of all strategies other than calendar spread (40%) the percentage is 30%.</p>	<p>Where no bid and/or no offer exists on the Central order Book for the relevant contract month or strategy, a Request for Quote (RFQ) must first be entered for such contract month or strategy. The matching business may only be entered to the Trading Host where a period of five seconds in the case of futures contracts, fifteen seconds in the case of Commodity Option Contracts and ten seconds in the case of all other option contracts has elapsed.</p>
TIFFE TFX	<p>No</p>	<p>Futures, Options on Futures</p>	<p><u>Implied in:</u></p> <ul style="list-style-type: none"> - Calendar Spread - Butterfly - Condor - Strips (only where volume quoted 1 lot per leg) - Packs - Bundles <p><u>Implied out:</u></p> <ul style="list-style-type: none"> - Calendar Spread 	<p>None</p>		

III. PUBLIC INTEREST

The proposed changes are not contrary to the public interest.

IV. PROCESS

The proposed changes, including this analysis, were approved by the Bourse's Rules and Policies Committee and are submitted to the Autorité des marchés financiers in accordance with the self-certification process and to the Ontario Securities Commission for information.

V. REFERENCES

CME Group:

CME Group, *CBOT Rulebook*, Chapter 5, Rule 588 G
<http://www.cmegroup.com/rulebook/CBOT/I/5/88.html>

CME Group, *CBOT Rulebook*, Chapter 5, Rule 533
<http://www.cmegroup.com/rulebook/CME/I/5/>

CME Group - Implied Pricing Functionality
<http://www.cmegroup.com/education/interactive/webinars-archived/implied-price-functionality.html>

NYSE/Liffe:

NYSE Liffe - Guide to Electronic Trading
http://www.nyse.com/pdfs/guide_electronic_trading.pdf

NYSE/Liffe, Trading Procedures, Section 3, Rule 3.45
<http://www.euronext.com/fic/000/059/181/591811.pdf>

NYSE/Liffe, Price Limits and Trade Invalidation Value Ranges
<http://www.euronext.com/fic/000/050/251/502511.pdf>

NYSE/Liffe – LIFFe CONNECT STRATEGIES
<http://www.euronext.com/fic/000/044/491/444917.pdf>

TIFFE TFX:

Tokyo Financial Exchange - Trading
<http://www.tfx.co.jp/en/rules/index.shtml>

VI. ATTACHED DOCUMENTS

Procedures for the Cancellation of Trades

Procedure Applicable to the Execution of Cross and Execution of Prearranged Transactions

Procedures Applicable to the Execution Strategies Involving Futures and Options on Futures

List of acceptable strategies for futures contracts and options on futures contracts

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 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 strategy trade resulting from an implied 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 strategy order will be treated as if the 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 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

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
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
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
30-Day Overnight Repo Rate Futures	5 basis points
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
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 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 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):		
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
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 (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 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

Futures and Options on Futures Inter-Group Strategies

<u>All strategies</u>	<u>5 seconds</u>	<u>No threshold</u>
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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.

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.

LIST OF ACCEPTABLE STRATEGIES FOR FUTURES CONTRACTS AND
OPTIONS ON FUTURES CONTRACTS

INTER-GROUP STRATEGIES	
STRATEGY	EXAMPLE
LGB vs. CGB	Buy LGBU11 – Sell CGBU11
LGB vs. CGF	Buy LGBU11 – Sell CGFU11
CGB vs. CGF	Buy CGBU11 – Sell CGFU11
CGB Delta Trade	Buy CGBU11 – Buy or Sell OGB Call or Put
CGB vs. OGB Call Spread	Buy CGBU11 – Buy Call (X) – Sell Call (Y)
CGB vs. OGB Put Spread	Buy CGBU11 – Buy OGB Put(X) – Sell OGB Put(Y)
CGB vs. 1X2 RATIO CALL SPREAD	Buy CGBU11 – Buy OGB Call (X) – Sell 2 OGB Calls (Y)
CGB vs. 1X2 RATIO PUT SPREAD	Buy CGBU11 – Buy OGB Put(X) – Sell 2 OGB Puts (Y)
BAX Delta Trade	Buy BAXU11 – Buy or Sell OBX Call or Put
BAX vs. OBX Call Spread	Buy BAXU11 – Buy OBX Call (X) – Sell OBX Call (Y)
BAX vs. OBX Put Spread	Buy BAXU11 – Buy OBX Put (X) – Sell OBX Put (Y)
BAX vs. 1X2 RATIO CALL SPREAD	Buy BAXU11 – Buy OBX Call (X) – Sell 2 OBX Calls (Y)
BAX vs. 1X2 RATIO Put SPREAD	Buy BAXU11 – Buy OBX Put (X) – Sell 2 OBX Puts (Y)
INTRA-GROUP STRATEGIES	
STRATEGY	EXAMPLE
CALENDAR SPREAD	Buy BAXU11 – BAXZ11
BUTTERFLY SPREAD	Buy 1 BAXU11 – Sell 2 BAXZ11 – Buy 1 BAXH12
CONDOR SPREAD	Buy 1 BAXU11 – Sell 1 BAXZ11 – Sell 1 BAXH12 – Buy 1 BAXM12