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		<input type="checkbox"/>	MCeX

**CIRCULAR**  
November 7, 2012

**NEW MARKET MAKING INCENTIVE PROGRAM  
S&P/TSX 60 INDEX STANDARD FUTURES CONTRACTS**

Bourse de Montréal Inc. (the “Bourse”) is issuing a Request for Proposal (“RFP”) for the market making of the S&P/TSX 60 Index Standard Futures contracts (SXF). This RFP is intended for approved participants and foreign approved participants interested in submitting proposals outlining their abilities and commitment towards market making activities for the benefit of the SXF contract. Market making activities are described as the requirement to quote 80% of the 9:30 a.m. to 4:00 p.m. (the close of the cash market) trading session, at the minimum size and maximum spread indicated in the RFP.

Selected Market Makers will benefit from:

- **Fixed compensation:** C\$50,000 per year, per Market Maker, for a two-year period, paid monthly (C\$4,166.67 per month).
- **Transaction fee reimbursement:** on both passive and active trading.

At the end of the RFP submission period, the Bourse will proceed with the selection of Market Makers that have submitted their proposals and who have agreed to quote the SXF contract.

**Proposed Timeframe**

<b>Implementation Timeline</b>	<b>Event</b>
November 7, 2012	Distribution of RFP
November 14, 2012	Deadline for communication of questions
November 20, 2012	Deadline for the Bourse to reply to questions
December 7, 2012	Deadline for reception of proposals to RFP
December 19, 2012	Notification of selected Market Makers
January 14, 2013	Deadline for signature of the Market Maker Agreement and launch of market making operations

The proposed timeframe is subject to change at the discretion of the Bourse.

Circular no. 148-2012

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Website: www.m-x.ca

You will find detailed information about the Market Making Program attached herein or on the website of the Bourse at [www.m-x.ca](http://www.m-x.ca).

For additional information, please contact Gladys Karam, Director, Equity Derivatives, by e-mail at [gkaram@m-x.ca](mailto:gkaram@m-x.ca).

Pauline Ascoli  
Vice-President, Legal Affairs, Derivatives  
Bourse de Montréal Inc.

## **REQUEST FOR PROPOSAL**

for the market making of the S&P/TSX 60 Index Standard Futures (SXF) contracts

Issued by Montréal Exchange Inc. – Equity Derivatives  
November, 2012

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## **Introduction and Purpose of the Request for Proposal**

Montréal Exchange Inc. (the “Bourse”) is soliciting all approved participants (“AP”) and foreign approved participants (“FAP”) interested in the new market making incentive program (the “Market Making Program”) to submit a proposal outlining their abilities and commitment with respect to market making activities for the benefit of the S&P/TSX 60 Index Standard Futures (SXF) contracts (“Proposal”).

All APs and FAPs of the Bourse are eligible to submit a Proposal for the purpose of participating in an incentive program for market making on the SXF. The ability of an AP or FAP to act as market maker will be conditional upon the quality of their proposal, good standing and compliance with the rules and procedures of the Bourse.

## **Background**

### **a. History**

Listed in 1999, the SXF contract has developed into one of the Bourse’s flagship products trading an average of 16,218 contracts per day in 2011.

Since its launch, the SXF contract has experienced modest growth relative to that of international index futures. Over the past five years, volume and open interest have remained at stagnant levels. While surveying the market, it was brought to the Bourse’s attention that many domestic accounts are reluctant to embrace futures products. Furthermore, the Bourse has received several comments from large institutional clients that there is not enough size and market depth in the central limit order book to execute large orders.

The Bourse has attempted on numerous occasions, with limited success, to introduce alternative measures to access liquidity (i.e. riskless basis, EFP, EFR). Today, in an effort to revitalize our full suite of index products, the Bourse would like to contract market makers to ensure that the SXF market is characterized by a deep and liquid order book. This is crucial to attracting greater participation from institutional clients, and in facilitating the execution of large transactions.

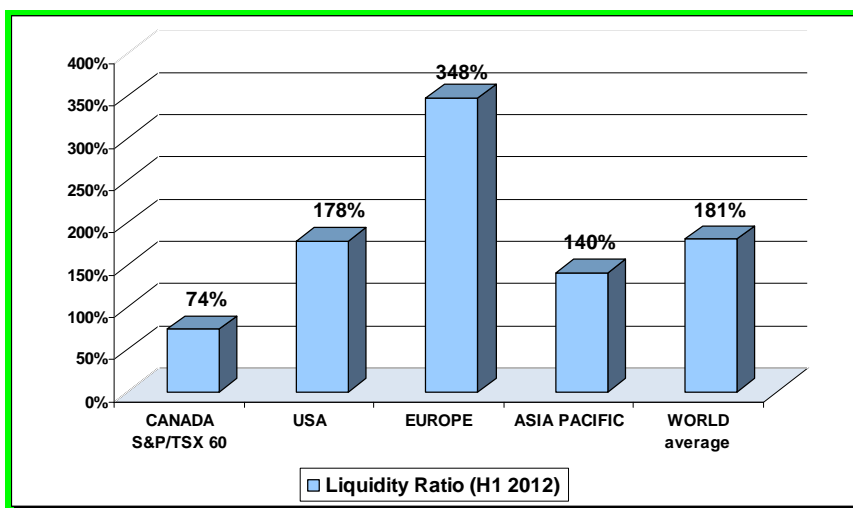
### **b. Opportunity**

There is a general consensus on the part of market participants, that there should be sufficient on-screen depth and liquidity to execute relatively large orders. The Bourse

is of the opinion that market makers can be identified and would be willing to post markets for the benefit of the SXF contract. This would require the posting of markets with minimum sizes on both the bid and ask prices without the need to be posting top of the book markets. Contracting SXF market makers to provide depth of book on the SXF contract should benefit and attract more participants to the market including some volume currently executed on the over-the-counter (“OTC”) market. This opportunity will therefore allow for a diversified participant pool and enhanced liquidity on the Bourse’s product offering.

The opportunity cost of not engaging market makers to provide greater depth of book on the SXF market, would be losing out on market share in a key sector with great upside potential.

As demonstrated by the following graph, the Canadian index futures market is underdeveloped relative to its peers.



Source: Montréal Exchange Research and Development

Therefore, the Bourse is soliciting Proposals for its new Market Making Program as outlined in the following sections.

## Program

### a. Description of the new Market Making Program:

As part of this initiative, the Bourse will proceed, if the responses submitted are satisfactory to the Bourse, with the selection of three (3) or more market makers (the “Market Maker”) who will quote the designated index futures contract.

**b. Eligibility:**

Are eligible to the Market Making Program:

- Approved Participants (“AP”) of the Bourse;
- Foreign Approved Participants (“FAP”) of the Bourse.

**c. Incentives:**

i. Fixed compensation:

\$50,000 per year, per Market Maker, for a two year period paid on a monthly basis into a sub-account (\$4,166.67 per month). Payment of the fixed compensation will be conditional upon the execution of continuous market making on the S&P/TSX 60 Index Standard Futures contracts for the relevant period. In addition, all requirements as indicated in section **f** must be satisfied.

ii. Transaction fees reimbursement:

The Market Makers will be reimbursed transaction fees on both passive and active trading (assuming that the Market Maker meets the obligations on the passive side). In addition, all requirements as indicated in section **f** must be satisfied.

**d. Duration of the contract:**

Two years.

**e. Market Making Selection Criteria – Elements:**

- i. Technology: Automation capabilities will support a higher quality of market making activities.
- ii. Capitalisation: Market Makers will be required to possess the necessary capital to undertake activities. Respondents should disclose capability.
- iii. Knowledge: Market Makers will be required to have the necessary skills and experience for the market making of equity markets.

**f. Market Making Requirements:**

- i. Length of day: Market Makers will be required to quote markets 80% of the 9:30 a.m. to 4:00 p.m. (the close of the cash market) trading session, at the

minimum size, and maximum spread indicated in sub-section f-ii. *Market Making Requirements – minimum size*. This also applies during roll periods.

- ii. Minimum size: Each Market Maker will be required to post a minimum size of 50 contracts on the bid and 50 contracts on the offer at the maximum spread the Market Maker is ready to commit to. The Bourse will then choose among the Market Makers offering the best maximum spread commitment.
- iii. Early session: Market Makers willing to quote markets during the early session, and from 4 p.m. until 4:15 p.m., will be deemed more appropriate in the selection process.

**g. Monitoring of Performance:**

The Bourse shall be solely responsible for the monitoring of Market Makers compliance with the Market Making Program obligations and the calculation of fee waivers. Market Makers will be required to open a separate account for all Market Making activities related to this program. This separate account will better enable the Bourse to properly monitor the Market Making obligations.

**Request for Proposal (RFP) Procedure**

To respond to this RFP, please provide a Proposal addressing the points noted above. As further guidance to the type of information that would be helpful in assessing the Proposal, please refer to the attached table (page 10).

The Proposals will be evaluated by the steering committee of the project, which includes members from the various business units of the Bourse. The contact person below is available for assistance, as necessary.

**a. Confirmation of Receipt and Delivery of Proposal**

Please acknowledge receipt of this RFP via email (to the undersigned address) on or before 5:00 p.m. EST on November 12, 2012.



**b. Contact**

To ensure a fair treatment, please direct all written questions by email. All questions are to be forwarded to the following:

Gladys Karam  
 Director, Equity Derivatives  
 Phone: 514 871-7880  
 Email: [gkaram@m-x.ca](mailto:gkaram@m-x.ca)

**c. Timeframe**

November 7, 2012	Distribution of RFP
November 14, 2012	Questions must be submitted
November 20, 2012	The Bourse will respond to questions
<b>December 7, 2012</b>	<b>Deadline for Proposal submissions</b> (or at a later date as determined by the Bourse)
December 19, 2012	Notification of selected Market Makers
January 14, 2013	Signature of the Market Maker Agreement and Day of live market making activities

**d. Information Table**

The RFP evaluation process will focus on the Proposals developed in response to the items described in the body of this RFP. In preparing this Proposal, please refer to the attached information table (page 10). Completion of this table is optional and respondents can provide the requested information on another format if more accommodating. Obtaining the information requested would facilitate the RFP evaluation process. However, the Bourse is aware details may not be available to address each of the individual components at this time.

## **Disclosure**

All documents submitted by respondents shall become the property of the Bourse. The information contained in the Proposals is proprietary and shall therefore be treated as confidential.

## **Conflicts**

The respondents shall reference in their Proposal any potential conflicts of interest, perceived or otherwise, between the respondent and the Bourse or its participants.

## **Evaluation**

The objective of the evaluation process is to identify the Proposals that, in the discretion and assessment of the Bourse, most effectively meet the criteria provided for in this RFP. Will also be considered, which proposals would be the most beneficial to the Bourse's market participants.

Please note that neither the most financially attractive proposal nor any proposal will necessarily be accepted by the Bourse. While all criteria constitute important elements in the selection process, respondents should recognize and are deemed to acknowledge that the steering committee of the project of the Bourse might consider other elements relevant for the evaluation of the Proposals.

In assessing the Proposals, the steering committee of the project of the Bourse will be evaluating each Proposal based on the criteria provided for in Section e) *Market Making Selection Criteria – Elements*: Technology, capitalization and knowledge.

## **General Terms and Conditions**

1. The issuance of this RFP to any prospective respondent shall not cause any express or implied commitment or undertaking on the part of the Bourse and the Bourse is under no obligation or commitment, whatsoever, to accept any Proposal.
2. The Bourse shall not be liable for any fees, costs or expenses incurred by the respondent resulting from this RFP or any other request.
3. Respondents shall not disclose their Proposal or elements of their Proposal to third parties without the prior written consent of the Bourse.
4. The Bourse might cancel, amend or withdraw this RFP at its own discretion and without prior notice.

5. Proposals received after the deadline for Proposal submissions will only be accepted at the discretion of the Bourse.
6. All Proposals shall be binding for a period of 30 days following the closing date. Should a respondent wish to alter or amend a Proposal, it shall be withdrawn by letter and a new Proposal submitted prior to the deadline for Proposal submissions.
7. The respondent may revoke its Proposal at any time prior to the closing of the request by delivering written notice via email to [gkaram@m-x.ca](mailto:gkaram@m-x.ca)
8. The selected Market Makers will be required to sign a market making agreement (“MMA”) with the Bourse prior to being admitted into the Program. The Bourse shall only accept to sign an MMA with an AP or FAP in good standing and in compliance with the rules and procedures of the Bourse.
9. The selected Market Makers will be required to, directly or through their clearing member (responsible for the allocation process), set up a sub-account that can be recognized by the Bourse.
10. Information table:

Information Requested	Response
<b>GENERAL CORPORATE INFORMATION</b>	
Company name	
Company address	
<b>RFP contact information:</b>	
Name and title	
Telephone number	
Email address	
Company division	
AP or FAP	
Able to open sub-account	
Exchanges memberships	
Staffing – name and number	
• Traders	
• Programmers	
<b>TECHNOLOGY/OPERATIONS/RISK MANAGEMENT</b>	
Description of automation capabilities	
Trading tools	
Name of Independent Software Vendors (ISVs)	
Description of cash market access	
Description of risk management tools	
Additional risk safeguards	
<b>CAPITALISATION/FINANCIAL INFORMATION</b>	
Market Making capital	
Balance sheet	
Risk budget	
Maximum spread commitment	
Maximum spread commitment during early session and from 4 p.m. until 4:15 p.m.	
<b>EQUITY AND MARKET MAKING EXPERIENCE</b>	
Number of years market making	
Description of experience	

Other Considerations:

What are the advantages of your market making abilities over other firms? Please elaborate.

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