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

CIRCULAR
November 22, 2010

REQUEST FOR COMMENTS

AMENDMENT OF INCREMENTS RELATED TO INDEX OPTIONS FOR PURPOSES OF CALCULATING THE NO CANCEL RANGE

ADDITION OF INCREMENTS RELATED TO THE 30-DAY OVERNIGHT REPO RATE FUTURES, OPTIONS ON EXCHANGE TRADED FUNDS, AND CURRENCY OPTIONS FOR THE PURPOSES OF CALCULATING THE NO CANCEL RANGE

AMENDMENTS TO ARTICLE 5.3 OF THE PROCEDURES FOR THE CANCELLATION OF TRADES

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to the Procedures for the Cancellation of Trades (the "Procedures") of Bourse. The amendments are proposed in order to add increments related to 30-Day Overnight Repo Rate Futures ("ONX"), Options on Exchange Traded Funds and Currency Options and to amend increments related to Index Options provided for in paragraph 5.3(3) of the Procedures.

Comments on the implementation of the proposed amendments must be submitted within 30 days following the date of publication of the present, at the latest on **December 22, 2010**. 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
E-mail: legal@m-x.ca

Circular no.: 158-2010

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

Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Appendices

For your information, you will find in appendices an analysis document of the proposed amendments as well as the amended 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).

In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants, among which, the Rules relating to margin and capital requirements. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules with recommendation from the Special Committee. These changes are submitted to the Autorité for approval.

AMENDMENT OF INCREMENTS RELATED TO INDEX OPTIONS FOR PURPOSES OF CALCULATING THE NO CANCEL RANGE

ADDITION OF INCREMENTS RELATED TO THE 30-DAY OVERNIGHT REPO RATE FUTURES, OPTIONS ON EXCHANGE TRADED FUNDS, AND CURRENCY OPTIONS FOR THE PURPOSES OF CALCULATING THE NO CANCEL RANGE

AMENDMENTS TO ARTICLE 5.3 OF THE PROCEDURES FOR THE CANCELLATION OF TRADES

I. INTRODUCTION

The objective of the Procedures for the Cancellation of Trades (the "Procedures") of Bourse de Montréal inc. (the "Bourse") is to ensure that all transactions are executed at a price coherent with prevailing market conditions and to ensure that input errors can be corrected.

To this end, article 5.3 of the Procedures provides that 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 Rule 6 of the Bourse, what 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; and
- Apply the increments provided for in paragraph 5.3(3) of the Procedures (add and deduct) to the acceptable market price.

In order to correct certain oversights and add increments that are presently unavailable for certain products, the Bourse proposes to amend certain increments, and to add others that are presently unavailable as provided for in paragraph 5.3(3) of the Procedures.

II. DETAILED ANALYSIS

A. Rationale

During the review of the procedure the following oversights and omissions were discovered.

- The increments to determine the No Cancel Range for the Index Options (i.e. the S&P/TSX60 Index Options (“SXO”)) provided for in paragraph 5.3(3) of the Procedures makes reference to index points as the increments to calculate the no cancel range, while the Index Options transact in dollar terms.

- Currently in the Procedures the increments to determine the No Cancel Range for the 30-Day Overnight Repo Rate Futures (“ONX”) are not specified.

- Currently in the Procedures the increments to determine the No Cancel Range for the Options on Exchange Traded Funds (“ETF”) are not specified.

- Currently in the Procedures the increments to determine the No Cancel Range for Currency Options (i.e. USX) are not specified.

Index Options

The Index Options, like all other option contracts are traded in dollar terms and not index points. Furthermore the index options are identical to equity options in all respects except last trading day (i.e. index options cease trading one day before equity options), and Contract type (i.e. index options have European style exercise vs. American style for equity options). Other than the differences pointed out above, the options both have a multiplier of 100, are priced using the same pricing model, and both are subject to the same circuit breaker policy. In order for the Bourse’s market supervisors to accurately cancel or adjust transactions that are outside the no cancel range there must be in place a procedure that better reflects the characteristics of the contract. Because of the similarity between equity options and index options, it has been determined that the increments that are presently used by the Bourse to calculate the No Cancel Range for Equity Options are appropriate for the Index Options. It is therefore proposed that Bourse amend the Procedures in such a way as to replace basis point increments which are not applicable in practice with dollar term increments consistent with the price thresholds applied to Equity Options.

ONX

The ONX is an exchange traded futures product that very much resembles the Three-Month Canadian Bankers' Acceptance Futures ("BAX"). At present, the increments to calculate the No Cancel Range are unavailable for the ONX. The ONX is very similar to the BAX in all respects except nominal value (i.e. BAX = $1,000,000, ONX = $5,000,000), and listed expiries (i.e. BAX = 3 years forward, ONX 1 Year forward). Other than these minor differences, both contracts are quoted as 100 minus the prevailing rate of their underlying, and both are cash settled futures contracts. Therefore it has been determined that the increments used to calculate the No Cancel Range for the BAX contract should be applied to the ONX and added to the Procedures. This threshold would be both adequate and consistent with practices currently in place.

Options on ETFs

Options on ETFs are identical to equity options in all respects except for the fact that the underlying for an equity option is a single stock whereas the underlying for an Option on ETFs is a share or unit representing a pool of several stocks. Beyond this minor difference both equity and ETF options behave, and are priced in the same fashion. Therefore it has been determined that the increments used to calculate the No Cancel Range for equity options, be applied to Options on ETFs and added to the Procedures. This threshold would be both adequate and consistent with practices currently in place.

Currency Options

Currency Options are exchange traded options whose underlying is the currency of a foreign nation (i.e. USD) vs. Canadian Dollar (CAD) rate (i.e. USD/CAD). Currency Option premiums are quoted in cents Canadian for one unit of foreign currency. Currency Options are like equity options in every respect except Trading unit (i.e. trading unit USD vs.shares) and Exercise Style (i.e. European style for Currency Options vs. American style for Equity Options). Beyond these minor differences both Equity and Currency Options behave, and are priced in the same fashion. Therefore it has been determined that the increments used to calculate the No Cancel Range for Equity Options, be applied to Currency Options and added to the Procedures. This threshold would be both adequate and consistent with practices currently in place.

III. Similar Contracts Traded Elsewhere in the World

ONX

The Chicago Mercantile Exchange (“CME”) uses a 5 point basis point increment to calculate the no cancel range for the 30 day Fed Funds Rate futures contract.

The Australian Stock Exchange (“ASX”) uses a 5 point basis point increment to calculate the no cancel range for the Australian 30 day Interbank rate futures contract.

The NYSE Euronext Exchange (“NYSE”) uses a 7 point basis point increment to calculate the no cancel range for the 1 Month Eonia futures contract.

Index Options

The ASX uses a 25 Index Point increment to calculate the no cancel range for the SPI 200 Index option; however the option is quoted in Index points.

The NYSE uses price thresholds that are similar to the Bourse’s price thresholds for equity options to calculate the no cancel range for the FTSE 100 Index Option.

The Chicago Board Of Options Exchange (“CBOE”) uses price thresholds that are similar to the Bourse’s price thresholds for equity options, to calculate the no cancel range for the NASDAQ 100 Index Option.

Currency Options

The NYSE uses price thresholds that are similar to the Bourse’s price thresholds for equity options, to calculate the no cancel range for the EURO/USD option.

The NASDAQ OMX PHLX (“PHLX”) uses price thresholds that are similar to the Bourse’s thresholds to calculate the no cancel range for the Canadian Dollar Currency option.

Options on ETFs

The NYSE uses price thresholds that are similar to the Bourse’s price thresholds for equity options, to calculate the no cancel range for the LYXOR ETF Banks option.

The CBOE uses price thresholds that are similar to the Bourse’s price thresholds for equity options, to calculate the no cancel range for the NASDAQ 100 Index Option.

Comparison

From the above-mentioned similar contracts, it is evident that what is being proposed by the Bourse with respect to increments to calculate the no cancel ranges for the various products listed on the Bourse, is consistent with what is being done on various exchanges across the globe.

The comparison of the product offerings of various exchanges across the world, as well as their procedures is illustrated in the tables below.

SIMILAR CONTRACTS TRADED ELSEWHERE IN THE WORLD

PRODUCTS	CME	ASX	NYSE EURONEXT	NASDAQ OMX PHLX	CBOE
STIRS (ONX)	Yes 30 day Fed Funds Rate	Yes Australian 30 Day Interbank Rate	Yes 1 Month Eonia	N/A	N/A
Index Options	N/A	Yes SPI 200	Yes FTSE 100	N/A	Yes NASDAQ 100 INDEX OPTIONS
Currency Options	N/A	N/A	Yes Euro/US Dollar	Yes Canadian Dollar Currency Options	N/A
Options on ETFs	N/A	N/A	Yes LYXOR ETF Banks	Yes	Yes

INCREMENTS USED TO CALCULATE NO CANCEL RANGE AT OTHER EXCHANGES

INCREMENTS	CME	ASX	NYSE EURONEXT	NASDAQ OMX	CBOE
STIRS Increments (ONX)	30 day FED Funds Rate **5 basis points**	Australian 30 day Interbank Rate **5 basis points**	I month Eonia **7 basis points**	**N/A**	**N/A**
Index Option Increments (SXO)	**N/A**	**SPI 200** 25 Index Points	**FTSE 100** Theoretical price — Minimum amount Below $2 — $.25 $2 to $5 — $.40 Above $5 to $10 — $.50 Above $10 to $20 — $.80 Above $20 — $1.00	**N/A**	**NASDAQ 100 INDEX OPTIONS** Theoretical price — Minimum amount Below $2 — $.25 $2 to $5 — $.40 Above $5 to $10 — $.50 Above $10 to $20 — $.80 Above $20 — $1.00
Currency Option Increments (USX)	**N/A**	**N/A**	**EURO/US DOLLAR** Premium — Minimum amount Below $0.50 — $.10 $0.5 to $2.50 — $.15 $2.50 to $5.00 — $.20 $5.00 to $10.00 — $.25 $10.00 to $20.00 — $.40 Above $20.00 — $.50	**Canadian Dollar Currency Options** Theoretical price — Minimum amount Below $2 — $.25 $2 to $5 — $.40 Above $5 to $10 — $.50 Above $10 to $20 — $.80 Above $20 — $1.00	**N/A**

Option on ETFs increments	N/A	N/A	**LYXOR ETF Banks** Theoretical price — Minimum amount Below $1 — $.40 $1 to $2 — $.50 Above $2 to $5 — $.60 Above $5 to $10 — $.70 Above $10 — $.80		**I-SHARES MSCI CANADA INDEX (EWC)** Theoretical price — Minimum amount Below $2 — $.25 $2 to $5 — $.40 Above $5 to $10 — $.50 Above $10 to $20 — $.80 Above $20 — $1.00

IV. Summary of Proposed amendments and additions:

The Bourse proposes to add increments related to the ONX provided for in paragraph 5.3(3) of the Procedures which are presently unavailable and which will be identical to the increments used to determine the no cancel range for Three-Month Canadian Banker's Acceptance Futures ("BAX").

The Bourse proposes to amend the increments related to the Index Options (i.e. the SXO) provided for in paragraph 5.3(3) of the Procedures from 0.5 index point for first three serial months and 1.0 index point for next two quarterly months to the thresholds presently used by the Bourse to determine the No Cancel Range for Equity Options. Also, the substitution of "Index Options" to the SXO as a derivative instrument covered by the Procedures will enable the Bourse to proceed with the launch of new index options that will also be covered by the Procedures.

The Bourse proposes to add increments related to the ETF provided for in paragraph 5.3(3) of the Procedures which are presently unavailable and which will be identical to the increments used to determine the no cancel range for Equity Options.

The Bourse proposes to add increments related to Currency Options provided for in paragraph 5.3(3) of the Procedures which are presently unavailable and which will be identical to the increments used to determine the no cancel range for Equity Options.

The proposed amendments take into account the price volatility and liquidity of the products concerned, as well as the increments related to similar products set by other exchanges.

V. Purpose of Proposed Amendments and Additions to the Provedures of the Bourse

By amending the increments related to the Index Options (i.e. the SXO) to better reflect the realities of the market, the Bourse is better equipped to adjust trades in a fair and equitable manner in the event that a participant makes an error while trading this product.

By adding the increments used to calculate the no cancel ranges for the ONX, Currency Options, and Options on ETFs, the Bourse is setting up guidelines that are presently unavailable in the procedures necessary to make the proper decisions when errors are made while trading these products.

VI. Public Interest

The Bourse considers that the proposed amendments and additions are not against public interest as they will allow the latter to fulfill the objective provided for in article 3 of the Procedures, that is, to ensure that all transactions are executed at a price coherent with prevailing market conditions and to ensure that input errors can be corrected.

VII. Process:

The proposed amendments to the Procedures have been presented to the Bourse's Rules and Policies Committee for approval. They will be submitted to the Autorité des marchés financiers for purposes of the self-certification process. These amendments will be transmitted to the Ontario Securities Commission for information purposes. They will also be published by the Bourse for a 30-day comment solicitation period.

VIII. References

- **ONX:**

ASX 24 Operating Rules Procedure, Procedure 3200 Subsection 9
http://www.asx.com.au/compliance/rules_guidance/asxl/asx_24_procedures.pdf

CME Rule Book, Chapter 5, Trading Qualifications and Practice, Rule 588: Trading Cancellations and Price Adjustments, Subsection G Globex No Bust Ranges
http://www.cmegroup.com/rulebook/CME/I/5/

NYSE Liffe, Trade Invalidations – Value Ranges, Appendix 1, Page 1
http://www.euronext.com/fic/000/050/251/502511.pdf

- **Index Options:**

ASX 24 Operating Rules Procedure, Procedure 3200 Subsection 9
http://www.asx.com.au/compliance/rules_guidance/asxl/asx_24_procedures.pdf

International Securities Exchange Rules, Rule 720 Obvious and Catastrophic Errors Subsection 1
https://www.ise.com/assets/documents/OptionsExchange/legal/rules/rules.pdf

CBOE Chapter VI, Doing Business on the Exchange Floor, Rule 6.25, Subsection (a), paragraph (1)
http://cchwallstreet.com/CBOETools/PlatformViewer.asp?searched=1&selectednode=chp%5F1%5F1%5F6%5F2%5F8&CiRestriction=trade+adjustment&manual=%2Fcboe%2Frules%2Fcboe%2Drules%2F

- **ETFs:**

International Securities Exchange Rules, Rule 720 Obvious and Catastrophic Errors Subsection 1
https://www.ise.com/assets/documents/OptionsExchange/legal/rules/rules.pdf

CBOE Chapter VI, Doing Business on the Exchange Floor, Rule 6.25, Subsection (a), paragraph (1)
http://cchwallstreet.com/CBOETools/PlatformViewer.asp?searched=1&selectednode=chp%5F1%5F1%5F6%5F2%5F8&CiRestriction=trade+adjustment&manual=%2Fcboe%2Frules%2Fcboe%2Drules%2F

NASDAQ OMX PHLX Rules, Options Rules, Rule 1092. Obvious Errors and Catastrophic Errors, Subsection (a) paragraph (i)
http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLXTools/PlatformViewer.asp?selectednode=chp%5F1%5F2%5F1%5F58&manual=%2Fnasdaqomxphlx%2Fphlx%2Fphlx%2Drulesbrd%2F

- **Currency Options:**

International Securities Exchange Rules, Rule 720 Obvious and Catastrophic Errors Subsection 1
https://www.ise.com/assets/documents/OptionsExchange/legal/rules/rules.pdf

NASDAQ OMX PHLX Rules, Options Rules, Rule 1092. Obvious Errors and Catastrophic Errors, Subsection (a) paragraph (i)
http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLXTools/PlatformViewer.asp?selectednode=chp%5F1%5F2%5F1%5F58&manual=%2Fnasdaqomxphlx%2Fphlx%2Fphlx%2Drulesbrd%2F

- **Appended Documents:**

Procedures for the Cancellation of Trades

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 SPREAD 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.

A spread trade resulting from an implied spread 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 spread order will be treated as if the spread 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 spread trade resulting from an implied spread order will be at least the increment on one of the individual legs (5 basis points) and at the most, the sum of each individual legs' increments (10 basis points).

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 Spreads: - Regular spread orders - Implied spread orders	 5 basis points 5 to 10 basis points; sum of the spread'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
~~Options on S&P/TSX Indices~~ ~~First three serial months~~	~~0.5 index point~~
~~Options on S&P/TSX Indices~~ ~~Next two quarterly months~~	~~1 index point~~
Equity, Currency, Index, and Exchange Traded Funds ("ETF") 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
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, INDEX AND BOND OPTIONS

A Market Supervisor may also cancel transactions under the following conditions:

1. Multiple consecutive transactions can be cancelled if they consist of four (4) or more transactions against one market maker provided that:

    - all transactions were executed within a one (1) second interval;

    - the opposite side of the transactions consists of one 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.