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

CIRCULAR
December 1, 2009

REQUEST FOR COMMENTS

ADDITION OF OPTIONS ON TEN-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (OGB) TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved modifications to the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions. The purpose of these modifications is to allow for the execution of cross transactions and prearranged transactions on Options on 10 year Government of Canada Futures Contract (OGB). This addition requires the determination of acceptable volume thresholds and prescribed time delays for each volume threshold. It also requires the addition of the OGB in the Eligible Products Table found in the above-mentioned Procedures.

Comments on the proposed modifications to the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions must be submitted within 30 days following the date of publication of this notice, at the latest on **December 31, 2009**. 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.: 181-2009

A copy of these comments shall also be forwarded to the Autorité to:

*Ms. Anne-Marie Beaudoin
Secrétaire de 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 modifications as well as the proposed text of the concerned Procedures. The implementation date of the proposed modifications will be determined by the Bourse, in accordance with the self-certification process as established in the Derivatives Act, L.R.Q., c. I-14.01.

Process for Changes to the Rules

Bourse de Montréal Inc. is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (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 its Rules. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as established in the Derivatives Act, L.R.Q., c. 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.



ADDITION OF OPTIONS ON TEN-YEAR GOVERNMENT OF CANADA BOND FUTURES (OGB) TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF CROSS TRANSACTIONS AND THE EXECUTION OF PREARRANGED TRANSACTIONS

INTRODUCTION

Bourse de Montréal Inc. (the Bourse) proposes to add Options on Ten-Year Government of Canada Bond Futures (OGB) to the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions (Cross Procedures). This addition requires the determination of acceptable volume thresholds and prescribed time delays for each volume threshold. It will also require the addition of the OGB in the Eligible Products Table found in the Cross Procedures.

I. DETAILED ANALYSIS

A - Rationale

Because of the lack of market depth and liquidity in the OGB market, approved participants have expressed interest in the OGB being included as an eligible product in the Cross Procedures. Furthermore, in an effort to be consistent across all product classes, it would be beneficial to include the OGB in the Cross Procedures in order to offer approved participants flexibility as well as to decrease execution risk when executing trades in the OGB contracts.

B - Benchmarking

The Bourse presently allows cross and prearranged transactions on Options on Three-Month Canadian Bankers' Acceptance Futures contracts (OBX). In an effort to be consistent and offer approved participants the same facilities across all product classes when executing transaction for their clients, the OGB should be included in the Cross Procedures.

The Chicago Mercantile Exchange (CME) offers to its clients a cross facility for 10-year U.S. Treasury Note Options, which share virtually the same characteristics as the OGB. The CME Group Market Regulation Department does not require volume thresholds as the product is relatively liquid. However they do require time delays between the time the buy or sell order is entered into the electronic platform, and the time the bid is hit or the offer is lifted. The CME rules are too stringent for the OGB in the sense that the OGB is not a very liquid product. Imposing time delays to small transactions (e.g., less than 250 contracts) would expose participants to execution risk and would further dampen activity in the product.

Please consult the Special Executive Report of the CME available at http://www.cmegroup.com/company/membership/membernet/files/20090309S_4829.pdf

If we refer to Table 1 below, for the first eight months of 2009, there were 14 prearranged transactions for a total of 10 134 contracts, with an average size per trade of 724 contracts. Applying the rules in place at the CME would not be appropriate considering the extremely thin liquidity in the OGB market and thus expose participants to execution risk. Therefore, the Bourse proposes to set the volume threshold, at which an approved participant can execute a zero-second cross, at 250 contracts. This would bring the OGB in line with the OBX, and encourage more activity in the OGB by eliminating execution risk.

Table 1: All trades in the OGB on the Bourse from January 1, 2009 to August 31, 2009

Date	Time	Trade Volume	External Symbol	Price	Class Model	Underlying Symbol
20090106	91958	400	OGBH09P11900	0,435	FutureOption	OGB
20090106	92103	400	OGBH09P11700	0,135	FutureOption	OGB
20090107	142634	50	OGZH09P9500	0,005	FutureOption	OGB
20090116	143454	202	OGZH09P9500	0,01	FutureOption	OGB
20090120	145650	546	OGZH09P9500	0,01	FutureOption	OGB
20090130	135042	116	OGZH09P9500	0,01	FutureOption	OGB
20090219	135909	2500	OGAK09P10000	0,01	FutureOption	OGB
20090220	135520	2284	OGZK09P9500	0,01	FutureOption	OGB
20090324	93008	100	OGGM09C12700	1,65	FutureOption	OGB
20090415	100100	100	OGGM09C12700	0,6	FutureOption	OGB
20090416	122337	2000	OGZU09P9500	0,01	FutureOption	OGB
20090420	145126	400	OGAM09P10000	0,01	FutureOption	OGB
20090421	144954	100	OGAM09P10000	0,01	FutureOption	OGB
20090820	83335	936	OGZZ09P9500	0,01	FutureOption	OGB

Total Volume	10134	Average Transaction Size	724
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C - Proposed Amendments

The Bourse proposes to amend the Table on the first page of the Cross Procedures such that the OGB is included in the list of eligible products. It is further proposed that the volume threshold for a zero-second cross for the OGB contract be greater than 250 contracts to harmonize with the volume threshold for the OBX. This threshold would be well received by and familiar to the marketplace.

Some housekeeping modifications were also effected.

II. PROCESS

The proposed amendments are submitted to the Rules and Policies Committee of the Bourse for approval. Once the approval has been obtained, they will then be transmitted to the Autorité des marchés financiers (AMF) in accordance with the self-certification process and to the Ontario Securities Commission (OSC) for information. The proposed amendments will also be published for a 30-day comment period.

III. REFERENCES

Attached document:

- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions

Source:

- CME Group:
http://www.cmegroup.com/company/membership/membernet/files/20090309S_4829.pdf



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
<u>Futures Contracts on Canada Carbon Dioxide Equivalent (CO₂e) Units Futures Contracts:</u>		
All expiry months and strategies	5 seconds	No threshold
Options on Three-Month Canadian Bankers' Acceptance Futures Contracts (OBX):		
All expiry months and strategies	0 second	≥250 contracts
All expiry months and strategies	5 seconds	< 250 contracts
<u>Options on Ten-Year Government of Canada Bond Futures Contracts (OGB):</u>		
<u>All expiry months and strategies</u>	<u>0 second</u>	<u>≥250 contracts</u>
<u>All expiry months and strategies</u>	<u>5 seconds</u>	<u>< 250 contracts</u>
<u>Equity and Currency Options:</u>		
<u>All expiry months</u>	<u>0 second</u>	<u>≥100 contracts</u>
<u>All expiry months</u>	<u>5 seconds</u>	<u>< 100 contracts</u>
Index Options:		
<u>All expiry months</u>	<u>0 second</u>	<u>≥50 contracts</u>
<u>All expiry months</u>	<u>5 seconds</u>	<u>< 50 contracts</u>

ELIGIBLE PRODUCTS	PRESCRIBED TIME DELAY	MINIMUM QUANTITY THRESHOLD
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

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.