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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
December 21, 2011

REQUEST FOR COMMENTS

FUTURES CONTRACTS ON CANADIAN SHARES

AMENDMENTS TO THE PROCEDURES OF BOURSE DE MONTRÉAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved the amendments to the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions, the Procedures Applicable to the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions, the Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts, the Procedures for the Cancellation of Trades, and the Procedures Applicable to the Execution of Riskless Basis Cross Transactions on Futures Contracts on S&P/TSX Indices (the “**Procedures**”) in order to allow the Bourse to launch futures contracts on canadian shares.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **January 21, 2012**. Please submit your comments to:

Mr. François Gilbert
Vice-President, Legal Affairs, Derivatives
Bourse de Montréal Inc.
Tour de la Bourse
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Circular no.:189-2011

Tour de la Bourse
P.O. Box 61, 800 Victoria Square, Montréal, Quebec H4Z 1A9
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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
E-mail: consultation-en-cours@lautorite.qc.ca*

Appendices

For your information, you will find in appendices an analysis 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).

Circular no.: 189-2011

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FUTURES CONTRACTS ON CANADIAN SHARES

AMENDMENTS TO THE PROCEDURES OF BOURSE DE MONTRÉAL INC.

Amendments to the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions, the Procedures Applicable to the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions, the Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts, the Procedures for the Cancellation of Trades, and the Procedures Applicable to the Execution of Riskless Basis Cross Transactions on Futures Contracts on S&P/TSX Indices

I. Introduction

Bourse de Montréal Inc. (the Bourse) launched on January 31, 2001, futures contracts on Canadian Shares and International Shares. The former were settled by physical delivery and the latter were cash settled. Trading volume in the product never gained traction and retail investor interest never materialized. As a result, the Bourse deferred any plans to extend its product offering of share futures to other Canadian names and the product was subsequently de-listed.

Given renewed interest by market participants for trading share futures on securities of Canadian entities, the Bourse has decided to re-launch the product. However, to do so, the Bourse must modify five Procedures of the Bourse to comply with regulatory requirements to re-launch futures contracts on Canadian shares.

The Rules of the Bourse and the Canadian Derivatives Clearing Corporation (the CDCC) are already in place since the product rules were drafted and approved in 2000. However, at the time of the launch in 2001, the Bourse did not have a formal set of documented procedures for its products. Therefore, the Bourse never included Share Futures when it drafted the procedures for its products as it was uncertain whether the Bourse would ever re-launch the product.

II. Rationale

A recent survey among Canadian banks, pension funds, insurance companies and broker dealers has shown renewed interest for share futures contracts. The product is viewed as a niche product that would target institutional users who would use the product mainly as an alternative to securities lending, for tax and dividend motivated strategies, arbitrage with options and for hedging purposes. The Bourse's positioning will follow the model adopted in the U.S. (One Chicago) and in Europe (Eurex and Euronext-Liffe). A model that promotes institutional use via wholesale facilities that includes block trading, crosses and exchange for physical (EFP's).

III. Proposed Regulatory Amendments

The Bourse proposes to amend the following procedures to permit the trading of futures contracts on Canadian shares:

- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions
- Procedures Applicable to the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions
- Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts
- Procedures for the Cancellation of Trades
- Procedures Applicable to the Execution of Riskless Basis Cross Transactions on Futures Contracts on S&P/TSX Indices

The amendments to the Procedures of the Bourse will facilitate the listing and trading of futures contracts on Canadian shares on the Bourse's electronic trading platform.

IV. Summary of the Proposed Amendments to the Procedures of the Bourse

The current Rules of the Bourse are already in place since the rules for Canadian and International Share futures contracts were drafted and approved in 2000. However, the Bourse must modify five Procedures of the Bourse to comply with regulatory requirements to re-launch futures contracts on Canadian shares.

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

The Bourse proposes that the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions (PCPT) be amended to include Canadian Share futures contracts. The PCPT is amended so that the prescribed exposure time delays which must occur at or between the current best bid and the current best offer available in the electronic system of the Bourse and the minimum quantity thresholds for Canadian Share futures contracts be established in accordance with the requirements of article 6380 of the Bourse's Rules. The prescribed time delay for Canadian Share futures contracts will be set at zero (0) seconds for a minimum quantity threshold equal to or greater than 100 contracts, and five (5) seconds for a minimum threshold level of less than 100 contracts – to conform with the exposure time delay of stock index futures listed on the Bourse, and in accordance with the practice on international exchanges that list single stock futures contracts.

International benchmarking for cross trades and pre-arranged trades:		
	Prescribed Time Delay	Cross and pre-arranged transactions Minimum Threshold Level
One Chicago	4 seconds	1 contract
Eurex	5 seconds	5 contracts
NYSE - Euronext	0 seconds	1 contract
proposed by Bourse de Montréal	<ul style="list-style-type: none"> ▪ 0 seconds ▪ 5 seconds 	<ul style="list-style-type: none"> ▪ equal to or greater than 100 contracts ▪ less than 100 contracts

B- Procedures Applicable to the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions

The Bourse proposes to amend the Procedures Applicable to the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions (Procedures for EFP-EFR-SUB) so that the requirements related to these operations for Canadian Share futures contracts be in accordance with article 6815 of the Bourse's Rules.

Based on the requirements of article 6815 and the Procedures for EFP-EFR-SUB, Canadian Share futures contracts have been added to the list of eligible instruments for these types of operations.

Moreover, for the purposes of an EFR transaction, Canadian Share futures contracts are already included as part of the standardized instrument group "Single Stock Futures" in the List of permissible OTC derivative instruments. The List of permissible OTC derivative instruments is found in Appendix I of the Procedures for EFP-EFR-SUB.

C- Daily Settlement Price Procedures of Futures Contracts and Options on Futures Contracts

The Bourse proposes to amend the Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts (DSPP) so that the requirements related to the daily settlement prices of Canadian Share futures contracts are established in accordance with article 6390 of the Bourse's Rules.

Based on the requirements of article 6390 and of the DSPP, Canadian Share futures contracts have been integrated in the "Canadian Share futures contracts" section (section 4.8 of the DSPP). Hence, the settlement price shall be the volume weighted average of all traded prices during the closing range. The closing range is defined as the last minute of the trading session for all Canadian Share futures contracts.

International benchmarking of the closing range to determine the daily settlement price:	
	Closing Range (VWAP of traded prices during the closing range)
One Chicago	Uses prices from the EFP market generated throughout the trading day
Eurex	VWAP of the last 3 prices
NYSE - Euronext	2 minutes
proposed by Bourse de Montréal	1 minute

D- Procedures for the Cancellation of Trades

To protect the integrity of the market and to ensure that input errors can be corrected when a transaction outside the no cancel range is identified by the Bourse's market supervisors, the current Bourse error policy shall be adopted for Canadian Share futures contracts.

In order to minimize the impact for all market participants, the no cancel range must be set wide enough so that it captures exceptional situations such as when a trade is executed at an unrepresentative price or, when a good faith input error occurs.

The Bourse proposes to amend the Procedures for the Cancellation of Trades (PCT) so that the requirements for trade cancellations for Canadian Share futures contracts is modified in accordance with articles 6303, 6381, 6382, 6383, 6384 and 6385 of the Bourse's Rules.

The Bourse had previously established the no cancel range at 2\$ for its share futures contracts. This range reflected the fact that the Bourse had only one share futures contract listed – Nortel Networks (NT). Since the Bourse will be listing share futures contracts on many Canadian names, the no cancel range must reflect both high and low priced stock listings. Hence, the Bourse proposes to amend the no cancel range

currently in effect for futures contracts on Canadian shares to reflect an increment that is established on a relative basis.

The Bourse proposes the following no cancel range for trading during the regular and extended sessions for futures contracts on Canadian shares:

1. 0 to 50 cents; for share futures with a fair value of less than 25\$;
2. 0 to 1\$; for share futures with a fair value equal to or higher than 25\$ but less than 100\$;
3. any price within 1% of the fair value; for share futures with a fair value equal to or higher than 100\$.

The no cancel range for Canadian Share futures contracts reflects an increment that is established on both a relative basis and an absolute basis.

International benchmarking of the cancellation of trades parameters:	
	Cancellation of trades parameters (upper and lower range)
One Chicago	<ul style="list-style-type: none"> ■ fair value <25\$; no cancel range of ≤0.50\$ ■ fair value is equal to or higher than 25\$ but less than 100\$; no cancel range of ≤\$1 ■ fair value of ≥100\$; no cancel range is any price within 1% of the fair value
Eurex	A deviation of the Mistrade Transaction Price from the Reference Price shall be deemed significant if the price of the Mistrade Transaction deviates from the Reference Price more than 20 percent of the margin parameters for the corresponding futures contract.
NYSE - Euronext	on an Absolute Basis for each stock futures For stock futures on U.S. stocks: the no-cancel range varies from 0.15\$ to 4\$
proposed by Bourse de Montréal	<ul style="list-style-type: none"> ■ fair value <25\$; no cancel range of ≤0.50\$ ■ fair value is equal to or higher than 25\$ but less than 100\$; no cancel range of ≤\$1 ■ fair value of ≥100\$; no cancel range is any price within 1% of the fair value

Also, the Bourse proposes to amend the PCT to add Section 4.3 Early Session No Cancel Range. Section 4.3 will apply to trades executed during early sessions. The No Cancel Range would be determined based on the last traded price registered in the underlying security on a Recognized Exchange or an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation ("Canadian ATS").

Furthermore, in compliance with Section 4 of the PCT, the Bourse proposes to include in the specifications of the Canadian Share futures contracts that during the early session (6:00 to 9:15 am) the Bourse would use the last traded price registered in the underlying stock during that session on a Recognized Exchange or a Canadian ATS to determine the No Cancel Range for futures contracts on Canadian shares. In case of a last traded price registered on a Recognized Exchange outside of Canada, the relevant exchange rate published by Bloomberg will be used to convert the price in CAN dollars and cents.

However, if there is no trade registered in the underlying stock on a Recognized Exchange or Canadian ATS during the early session, the Bourse proposes to establish an upper and lower price limit (price band) for futures contracts on Canadian shares at which trades can be executed during the early session in accordance with article 6393A of the Bourse's Rules. Specifically, the Bourse proposes that a trading range of 5% price variation (upper price limit and lower price limit) from the previous day's settlement price shall be applied to transactions on futures contracts on Canadian shares during the early session. The 5% price band that is proposed for futures contracts on Canadian shares conforms to the price band currently in effect during the early session for stock index futures contracts listed at the Bourse.

E- Procedures Applicable to the Execution of Riskless Basis Cross Transactions on Futures Contracts on S&P/TSX Indices

The Bourse proposes to amend the Procedures Applicable to the Execution of Riskless Basis Cross Transactions on Futures Contracts (PARBC) so that the requirements related to these operations for Canadian Share futures contracts are in accordance with article 6005 and article 6380 of the Bourse's Rules.

Based on the requirements of article 6005 and article 6380 and the PARBC, Canadian Share futures contracts have been added to the list of eligible instruments for these types of operations.

V. Objective of the Proposed Amendments to the Rules and Procedures of the Bourse

The objective of the proposed amendments is to include futures contracts on Canadian Shares in the Procedures of the Bourse.

By including futures contracts on Canadian Shares in the Procedures of the Bourse, the Bourse will be able to re-launch the product and make it available to market participants.

VI. Public Interest

The amendments to the Procedures of the Bourse will permit the Bourse to offer futures contracts on Canadian Shares for market participants who have expressed their support for such contracts.

VII. Process

The proposed amendments to the Rules and Procedures of the Bourse are submitted to the Rules and Policies Committee of the Bourse and will be submitted to the Autorité des marchés financiers (AMF) in accordance with the self-certification process and to the Ontario Securities Commission (OSC) for information.

VIII. References

One Chicago

- Prearranged and Cross Transactions: Notice to Members #2010-13 dated August 19, 2010
<http://www.onechicago.com/wp-content/uploads/content2010/rev-ntm-2010-13-onechicago-policies-re-blocks1.pdf>
- Daily Settlement Prices Futures Contracts: Notice to Members #2006-02 dated August 28, 2006
<http://www.onechicago.com/wp-content/uploads/content2008/onechicagorulebook082906-2006-02.pdf>
- No Cancel Range: One Chicago Policy for Error Trades and Mistrades dated June 21, 2010
http://www.onechicago.com/wp-content/uploads/content2010/error-trade-policy-efp-revision-06_2010cftc_finalpost.pdf

Eurex

- Prearranged and Cross Transactions: Section 2.3 Eurex Trading Conditions
http://www.eurexchange.com/download/documents/regulations/trading_conditions/trading_conditions_en.pdf
- Daily Settlement Prices Futures Contracts: T.P. 2.2.2 of the NYSE LIFFE Trading Procedure dated October 18, 2010

<http://www.euronext.com/fic/000/059/181/591811.pdf>

- No Cancel Range:
http://www.eurexchange.com/trading/products/EQU/FUT/country/CA/BMOF_en.html?mode=mistrade_ranges

NYSE - Euronext

- Prearranged and Cross Transactions: T.P. 3.4.4 of the NYSE LIFFE Trading Procedure dated October 18, 2010
<http://www.euronext.com/fic/000/059/181/591811.pdf>
- Daily Settlement Prices Futures Contracts: T.P. 2.2.2 of the NYSE LIFFE Trading Procedure dated October 18, 2010
<http://www.euronext.com/fic/000/059/181/591811.pdf>
- No Cancel Range: Attachment 1 to London Notice Number 2942 dated September 25, 2007
<http://www.euronext.com/fic/000/027/347/273472.pdf>

IX. Documents Attached

- Specifications for Canadian Share futures contracts.
- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions.
- Procedures Applicable to the Execution and Reporting of Exchange for Physical (EFP), Exchange for Risk (EFR) and Substitution of OTC Derivative Instruments for Futures Contracts Transactions.
- Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts.
- Procedures for the Cancellation of Trades.
- Procedures Applicable to the Execution of Riskless Basis Cross Transactions on Futures Contracts on S&P/TSX Indices.

SHARE FUTURES* ON INDIVIDUAL CANADIAN STOCKS

Specifications

Underlying	Individual Canadian stocks.
Trading Unit	The trading unit shall be determined for each share futures contract.
Contract Months	Quarterly and serials contract months.
Price Quotation	Prices are quoted in Canadian cents and dollars per share for Canadian shares.
Minimum Price Fluctuation	CAN \$0.01 per share.
Last Trading Day	Trading ceases at 4:00 p.m. (ET) on the third Friday of the contract month, providing it is a business day; if not, the first preceding business day.
Final Settlement Price	The trading unit of the corresponding share futures contract times the last trade price of the underlying stock at the close of the last trading day.
Contract Type	Delivery of the underlying stocks via the Canadian Depository for Securities Limited (CDS), on the third business day following the Last Trading Day.
Reporting Level	The equivalence of 25,000 shares gross long or gross short in all contracts months combined.
Position Limits	Varies between the equivalent of 1,350,000 shares and 7,500,000 shares net long or net short positions in all contract months combined. Information on position limits can be obtained from Bourse de Montréal Inc. as they are subject to periodical changes.
Exchange of Futures for Physicals (EFP) and Exchange for Risk (EFR)	Approved Participants may exchange a futures position for a physical position (EFP) or an over-the-counter derivative instrument (EFR) of equal quantity by submitting a notice to the Bourse. EFPs and EFRs may be used to either initiate or liquidate a futures position.
Daily Price Limit	A trading halt of a share futures contract will be invoked in conjunction with the triggering of a trading halt in the underlying stock.

Trading Hours

- Early session: 6:00 A.M. to 9:15 A.M. (ET)*
- Regular session: 9:30 A.M. to 4:00 P.M. (ET)
- Extended session: 4:05 P.M. to 4:30 P.M. (ET)

*During the early session when the underlying stock is not open for trading on a Recognized Exchange in Canada, the last traded price registered in the underlying stock during that session on a Recognized Exchange or an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation ("Canadian ATS") shall be used to determine the No Cancel Range for futures contracts on Canadian shares. In case of a last traded price registered on a Recognized Exchange outside of Canada, the relevant exchange rate published by Bloomberg will be used to convert the price in CAN dollars and cents.

However, if there is no trade registered in the underlying stock on a Recognized Exchange or Canadian ATS during the early session and in accordance with article 6393A of the Rules of the Bourse, a trading range of 5% price variation (upper price limit and lower price limit) from the previous day's settlement price shall be applied to transactions on futures contracts on Canadian shares during the early session.

* Also referred to as single stock futures



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

Canadian Share Futures Contracts:

<u>All expiry months and strategies</u>	<u>0 seconds</u>	<u>≥ 100 contracts</u>
<u>All expiry months and strategies</u>	<u>5 seconds</u>	<u>< 100 contracts</u>

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 FOR THE EXECUTION AND REPORTING OF EXCHANGE FOR PHYSICAL (EFP), EXCHANGE FOR RISK (EFR) AND SUBSTITUTION OF OTC DERIVATIVE INSTRUMENTS FOR FUTURES CONTRACTS TRANSACTIONS

The purpose of the following procedures is to explain as fully as possible: a) the requirements of article 6815 of the Rules of Bourse de Montréal Inc. (the Bourse) relating to the execution of transactions involving the exchange of futures contracts for a corresponding cash position (Exchange for Physical (EFP)) and of transactions involving the exchange of futures contracts for a corresponding over-the-counter derivative instrument (Exchange for Risk (EFR)); and b) of article 6815A of the Rules of the Bourse relating to the execution of transactions involving the substitution of an over-the-counter derivative instrument for futures contracts. Approved participants must ensure that all of their employees who are involved in the execution of this type of transactions are fully aware of these procedures. Any violation of the requirements set forth in articles 6815 and 6815A of the Rules of the Bourse and in these procedures could result in disciplinary action being taken by the Bourse.

Exchanges for Physicals (EFP)

An EFP is a transaction whereby two parties enter into an agreement in which one party purchases a cash market position and simultaneously sells a corresponding futures contract position and the other party sells the cash market position and simultaneously purchases the corresponding futures contract position.

The Bourse permits EFP transactions on the following instruments:

- Interest rate futures contracts**
- Futures contracts on S&P/TSX indices**
- Futures contracts on carbon dioxide equivalent (CO₂e) units (MCX)**
- Futures contracts on Canadian crude oil**
- [Canadian Share Futures Contracts](#)**

Exchange for Risk (EFR)

An EFR is a transaction whereby two parties enter into an agreement in which one party purchases an over-the-counter derivative instrument and simultaneously sells a corresponding futures contract and the other party sells the over-the-counter derivative instrument and simultaneously purchases the corresponding futures contract.

The Bourse permits EFR transactions on the following instruments:

- Interest rate futures contracts**
- Futures contracts on S&P/TSX indices**
- Futures contracts on carbon dioxide equivalent (CO₂e) units (MCX)**
- Futures contracts on Canadian crude oil**
- [Canadian Share Futures Contracts](#)**

Substitution of an OTC derivative instrument for futures contracts (Substitution)

A Substitution is a transaction whereby two parties enter into an agreement to substitute an over-the-counter derivatives position for a corresponding futures contract position. The party who is the buyer of the over-the-counter derivative instrument substitutes this position and buys the corresponding futures contract and the other party who is the seller of the over-the-counter derivative instrument substitutes this position and sells the corresponding futures contract.

The Bourse currently permits Substitution transactions on futures contracts on carbon dioxide equivalent (CO₂e) units.

Pricing the Cash component of an EFP or the Risk component of an EFR or of a Substitution

The cash component of an EFP or the risk component of an EFR or of a Substitution is priced at such level that is mutually agreed upon by the two parties to the transaction.

The futures contract leg of an EFP, an EFR or a Substitution must be priced at a fair and reasonable level in light of factors such as, but not limited to, the size of such an EFP, EFR or Substitution transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market and the general market conditions prevailing at the time the EFP, EFR or Substitution transaction is executed.

The cash component of an EFP or the risk component of an EFR or of a Substitution transaction must be the futures contract underlying interest, a by-product of this underlying interest or a similar product that is reasonably correlated to the futures contract being exchanged.

Also, the number of futures contracts exchanged must be approximately equivalent to the quantity or value of the cash market position being exchanged in an EFP transaction or of the risk component being exchanged in the case of an EFR or substituted in the case of a Substitution. Approved participants that are parties to an EFP, EFR or Substitution transaction may be required to demonstrate such equivalency.

Acceptable EFP, EFR and Substitution Transactions

In order to have an EFP, EFR or Substitution transaction accepted by the Bourse, the transaction must satisfy the following conditions:

- There must be separate but integrally related futures contracts and cash (in the case of an EFP) or risk component (in the case of an EFR or Substitution) transactions.
- The exchange or substitution transaction must be done between two separate accounts that must satisfy at least one of the following criteria:
 - accounts have different beneficial ownership;
 - accounts have the same beneficial ownership but are under separate control; or
 - accounts are under a common control but involve separate legal entities which may or may not have the same beneficial ownership.

If the parties to an EFP, EFR or Substitution transaction involve the same legal entity, same beneficial owner or separate legal entities under common control, the approved participant (or the parties themselves) must be able to demonstrate that the EFP, EFR or Substitution transaction is a legitimate arm's length transaction.

- The cash market instrument leg of the EFP or the risk component leg of an EFR transaction must provide for a transfer of ownership of the cash market instrument of an EFP or of the over-the-counter derivative instrument of the EFR to the buyer of this instrument and the delivery of this instrument must take place within a reasonable period of time (in accordance with cash market or over-the-counter practice).
- The relation between the prices of the futures contract and of the cash instrument leg of the EFP or the risk component leg of the EFR or Substitution transaction and the relevant prices in either market must be established.
- If he does not have actual possession of the cash instrument, in the case of an EFP transaction, or of the over-the-counter derivative instrument, in the case of an EFR transaction, before the execution of the transaction, the seller of this cash instrument or over-the-counter derivative instrument must be able to demonstrate his ability to satisfy his delivery obligation.
- The Bourse may request that approved participants involved in an EFP, EFR or a Substitution transaction demonstrate that the related cash position and futures position is reasonably correlated.

Acceptable Cash Components for the purpose of an EFP Transaction

In order to have an EFP transaction accepted by the Bourse, the cash component of the transaction must satisfy the following conditions:

- **For interest rate futures contracts:** fixed income instruments that have a reasonable price correlation, maturities as well as risk characteristics that parallel the instrument underlying the futures contract being exchanged. Such instruments include, but are not necessarily limited to, money market instruments including asset backed commercial paper, Government of Canada and Federal Crown Corporation fixed income instruments, provincials fixed income instruments, investment grade corporates including Maple Bonds and mortgage instruments including collateralized mortgage obligations (CMOs). Fixed income instruments denominated in the currency of a G7 member country that satisfy these conditions are also acceptable.
- **For futures contracts on S&P/TSX indices:** stock baskets must be reasonably correlated to the underlying index with a correlation coefficient (R) of 0.90 or more. Furthermore, these stock baskets must represent a weight of at least 50% of the underlying index or must include at least 50% of the securities of the underlying index. The notional value of the basket must be fairly equal to the value of the futures contract component of the exchange transaction. Exchange-traded funds (iShares™) are also acceptable, provided they mirror the index futures contract against which the EFP transaction is made.
- **For futures contracts on carbon dioxide equivalent (CO₂e) units:** The eligible Canadian CO₂e units are regulated emitters' credits, and / or offset credits
- **For futures contracts on Canadian crude oil:**
 - For Canadian heavy crude oil: specific domestic crude oil streams with not less than 2.5% nor more than 3.5% sulfur by weight, not less than 19° API gravity nor

more than 22° API gravity. Domestic crude oil streams include, but are not limited to: Western Canadian Select, Western Canadian Blend, Lloyd Blend, Bow River, Cold Lake Blend and Wabasca.

- [For Canadian share futures contracts: The underlying stock of the futures contract being exchanged.](#)

Permissible Over-the-Counter Derivative Instruments for the purpose of an EFR Transaction

A list of permissible over-the-counter derivative instruments for the purpose of effecting an EFR transaction is included in Appendix I.

Permissible Over-the-Counter Derivative Instruments for the purpose of a Substitution Transaction

- **For futures contracts on carbon dioxide equivalent (CO₂e) units:** Over-the-counter derivative instruments on carbon dioxide equivalent units that are reasonably correlated (with a correlation coefficient (R) of 0.80 or more) to the futures contract being substituted.

As a guideline, the time period used to calculate the correlation coefficient must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Reporting an EFP, EFR or Substitution transaction to the Bourse

EFP, EFR and Substitution transactions must be reported to the Bourse's Market Monitoring Department for approval and subsequent input into the Montréal Automated System (SAM). Approved participants for both the seller and buyer must complete and submit to the Market Monitoring Department the EFP / EFR / Substitution reporting form prescribed by the Bourse. This form is available on the Web sites of the Bourse at http://www.m-x.ca/efp_formulaire_en.php and at http://www.mcx.ca/trading_transactionReportForm in the case of futures contracts on carbon dioxide equivalent (CO₂e) units. If the EFP, EFR or Substitution transaction is executed before the closing of the trading session of the futures contract involved in the transaction, the EFP / EFR / Substitution reporting form must be submitted immediately upon the execution of the transaction. If the EFP, EFR or Substitution transaction is made after the closing of the trading session, the EFP / EFR / Substitution reporting form must be submitted no later than 10:00 a.m. (Montréal time) on the next trading day.

If the EFP / EFR / Substitution reporting form is not accurately filled out with all the relevant information required by the Market Monitoring Department of the Bourse, the transaction will not be approved neither recorded in SAM and the approved participant will have to resubmit a new EFP / EFR / Substitution reporting form correctly completed.

Once correctly completed EFP / EFR / Substitution reporting forms have been received, the Market Monitoring Department will validate the transaction. The Bourse has the discretion to refuse an EFP, EFR or Substitution transaction if it deems that it is not in compliance with the requirements, as the case may be, of articles 6815 or 6815A of the Rules of the Bourse or of these procedures. In case of refusal, the Market Monitoring Department will ensure that the

approved participant(s) involved in the EFP, EFR or Substitution transaction are promptly informed of such refusal and of the reasons for it.

Once an EFP, an EFR or Substitution transaction has been validated and has been entered into SAM by the Market Monitoring Department, the following information with respect to this transaction will be disseminated by the Bourse on its Web sites at http://www.m-x.ca/dailycrosses_en.php or at http://www.mcx.ca/trading_transactionReport in the case of case of futures contracts on carbon dioxide equivalent (CO₂e) units:

- Date and time of transaction
- product description (code);
- Contract month(s);
- Volume of the transaction; and
- Transaction price

Trade validation and market dissemination by the Bourse of an EFP, EFR or Substitution transaction will not preclude the Bourse from initiating any investigation and, as the case may be, disciplinary procedures in the event that the transaction is subsequently found to have been made other than in accordance with the requirements of articles 6815 and 6815A of the Rules of the Bourse or of these procedures.

Audit Trail Requirements for EFP, EFR and Substitution Transactions

Approved participants who enter into an EFP, EFR or Substitution transaction must maintain all documents relevant to the futures contracts and corresponding cash market or over-the-counter derivative instruments transactions and must be able to promptly provide copies of such documents to the Regulatory Division of the Bourse upon request. Documents that may be requested include, but are not limited to, the following:

- Futures contracts order tickets;
- Futures contracts account statements;
- Documentation customarily generated in accordance with the cash market, over-the-counter or other relevant market practices such as cash account statements, trade confirmation statements, ISDA[®] Master Agreements or other documents of title;
- Third party documentation to support proof of payment or allowing to verify that the ownership title of the related cash market position or, as the case may be, of the related over-the-counter derivative instrument position was transferred from the seller to the buyer. This may include, but is not limited to canceled checks, bank statements; cash account statements and cash instruments clearing corporation documents (e.g.: CDS Depository and Clearing Services Inc.).

All futures contracts order tickets must clearly indicate the time of execution of the EFP, EFR or Substitution transactions.

APPENDIX 1
Exchange for Risk: List of permissible OTC derivative instruments

	Bond Futures Contracts	Short-Term Interest Rate Futures Contracts	Stock Index Futures/ Single Stock Futures	Commodities Futures
Vanilla Interest Rate Swaps	√	√		
Equity and Index Swaps			√	
Commodities Swaps or Forwards				√
Forward Rate Agreements - FRAs		√		
OTC Options and Options Strategies	√	√	√	

The following outlines the characteristics of OTC derivative instruments that would be acceptable for EFR transaction purposes.

Swaps:

Interest rate

- standard plain vanilla OTC swap;
- written under the terms of an ISDA[®] Master Agreement;
- providing for regular fixed rate payments against regular floating rate payments;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC interest rate swap must be reasonably correlated with an R = 0.90 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transactions. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Equities and indices

- standard plain vanilla OTC swap;
- written under the terms of an ISDA[®] Master Agreement;
- providing for regular fixed rate payments or regular floating rate payments against the positive or negative performance of a basket of securities or a stock index;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC equity or index swap must be reasonably correlated with an R = 0.90 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Swaps or Forwards on Commodities:

- written under the terms of an ISDA[®] Master Agreement;
- The OTC commodities swap or forward must be reasonably correlated with an R = 0.80 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the

correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Forward Rate Agreements (FRAs):

- conventional FRA;
- written under the terms of an ISDA® Master Agreement;
- predetermined interest rate;
- agreed start/end date;
- have a defined interest (repo) rate.

OTC Options and OTC Option Strategies:

- Any individual or combination of OTC equity or stock index option positions can form the risk transaction component of an EFR transaction against any of the Bourse's stock index or single stock futures contracts.
- Any individual or combination of OTC bond, interest rate swap or FRA options (e.g. caps, floors, collars) can form the risk component of an EFR transaction against any of the Bourse's interest rate futures contracts

Stock baskets used in an EFR transaction must have the following characteristics:

- be reasonably correlated to the index underlying the futures contract with an $R = 0.90$ or greater and the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data is used, for a period of at least one (1) year;
- represent at least 50% of the weight of the index underlying the futures contract or include at least 50% of the stocks comprised in the index underlying the futures contract;
- have a notional value equivalent to the value of the futures contract component of the EFR transaction;
- exchange-traded funds (ETFs) are acceptable provided that they mirror stock index products traded on the Bourse.

DAILY SETTLEMENT PRICE PROCEDURES FOR FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS

1. RULE

Article 6390 of the Rules of Bourse de Montréal Inc. (the Bourse) stipulates that:

“The daily settlement price or the closing quotation are determined according to the procedures established by the Bourse for each derivative instrument.”

2. SUMMARY

FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS DAILY SETTLEMENT PRICES

- These markets use an average price during the last minutes of trading to establish a single settlement price. These calculations are executed manually by market officials or, as the case may be, by an automated algorithm using pre-established guidelines for each product.
- The prices at which block trades, Exchange for Physical (EFP), Exchange for Risk (EFR) or Substitution transactions are arranged shall not be used to establish the open, high, low or daily settlement price.

3. OBJECTIVES

The objectives of establishing daily settlement prices are:

- Ensure a fair and orderly market close and pricing for approved participants so that they can properly mark-to-market their positions for margin calculations and back office processing, including the clearing and settlement of their transactions ;
- Ensure that the Canadian Derivatives Clearing Corporation (CDCC) and all market participants are informed of the settlement prices.

4. DESCRIPTION

4.1 THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACTS (BAX)

The daily settlement price procedure for the Three-Month Canadian Bankers' Acceptance Futures contract (BAX) is executed by a fully automated pricing algorithm which utilizes the parameters described in sections 4.1.1, 4.1.2 and 4.1.3 to ensure accuracy in the process.

DEFINITIONS:

“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.

4.1.1 IDENTIFICATION OF THE FRONT QUARTERLY CONTRACT MONTH

The automated daily settlement pricing algorithm identifies the front quarterly contract month from the first two quarterly contract months. The front quarterly contract month is the one, among the first two quarterly contract months, that has the largest open interest and the required market information. In the absence of both these criteria together, then the front quarterly contract month shall be determined by market officials based on available market information.

4.1.2 ALGORITHM UTILIZED FOR THE DETERMINATION OF THE DAILY SETTLEMENT PRICE OF THE FRONT QUARTERLY CONTRACT MONTH

Once the front quarterly contract month has been identified, the automated daily settlement price algorithm will determine the settlement price of the front quarterly contract month according to the following priorities: first, it will use the last three minute weighted average price of cumulated trades amounting to at least 50 contracts on that contract month; if no such average price is available, it will then use the last 30 minute weighted average price of cumulated trades amounting to at least 50 contracts on that contract month. Trades resulting from both regular and implied orders will be used in the process. If no such average price is yet available, then the least variation between the bid or offer price that is not as a result of implied orders and the previous day settlement price will be used.

Once the daily settlement price for the front quarterly contract month has been established, it will be verified against the booked orders and if there is a better outright bid or offer that is not as a result of implied orders, the latter will take precedence over the daily settlement price calculated as described in the paragraph above.

4.1.3 PROCEDURE FOR THE DETERMINATION OF THE DAILY SETTLEMENT PRICE OF THE REMAINING BAX CONTRACT MONTHS

Upon completion of the aforementioned steps, the automated daily pricing algorithm will then establish the settlement prices for all other BAX contract months sequentially. The daily settlement prices of all other BAX contract months will be based first on the last three minute outright market (resulting from regular and implied orders) and strategy combination traded weighted average or, if no weighted average price can be determined in this manner, the least variation between the bid or offer for booked orders.

4.1.4 ANCILLARY PROCEDURE

In the absence of any required items to apply the aforementioned procedure, market officials will establish the settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

4.2 FUTURES CONTRACTS ON S&P/TSX INDICES

The settlement price shall be the weighted average of all trades during the closing range. The closing range is defined as the last minute of the trading session for all contract months. In the case of mini futures contracts on S&P/TSX indices, the settlement price shall be the same as the standard futures contracts on S&P/TSX indices when such standard futures contracts exist.

4.2.1 MAIN PROCEDURE

- **Booked orders**

If there is an unfilled order with a higher bid or lower offer in an outright month, this bid or offer will override the settlement price obtained from the weighted average. The order must have been posted for 20 seconds or longer prior to the close and its size must be for a total of 10 contracts or more.

- **Last trades**

If there are no trades in the last minute of trading, then the last trade will be taken into account while still respecting posted bids and offers in the market.

4.2.2 FIRST ANCILLARY PROCEDURE

When two contract months and the spread are trading (quarterly calendar roll), the ancillary procedure of this section will apply.

- The front month must be settled first (the establishment of the front month is based on the month with the greatest open interest).
- The spread between the two contract months must be settled next by taking into account the last minute average trading price and by examining the trades executed during the previous 10 minutes.
- The settlement price for the back month or far month is obtained by the difference between the front month settlement price and the value of the spread.

4.2.3 SECOND ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.2.1 and the ancillary procedure in 4.2.2, the following ancillary procedure will apply.

Market officials will post a settlement price that will reflect the same differential that was applied on the previous day settlement. The settlement price will be adjusted accordingly to respect that contract's previous settlement price.

4.2.4 THIRD ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.2.1 and the ancillary procedures in 4.2.2 and in 4.2.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

4.3 GOVERNMENT OF CANADA BOND FUTURES CONTRACTS

4.3.1 MAIN PROCEDURE

The settlement price shall be the weighted average of all trades during the closing range. The closing range is defined as the last minute of the trading session for all contract months.

- **Booked orders**

If there is an unfilled order with a higher bid or lower offer in an outright month, this bid or offer will override the settlement price obtained from the weighted average. This order must have been posted for 20 seconds or longer prior to the close and its size must be for 10 contracts or more.

- **Last trades**

If there are no trades in the last minute of trading, then the last trade will be taken into account while still respecting posted bids and offers in the market.

4.3.2 FIRST ANCILLARY PROCEDURE

When two contract months and the spread are trading (quarterly calendar roll), the following ancillary procedure will apply.

- The front month must be settled first (the establishment of the front month is based on the month with the greatest open interest).
- The spread between the two contract months must be settled next by taking into account the last minute average trading price and by examining the trades executed during the previous 10 minutes.
- The settlement price for the back month or far month is obtained by the difference between the front month settlement price and the value of the spread.

4.3.3 SECOND ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.3.1 and the ancillary procedure in 4.3.2, the following ancillary procedure will apply.

Market officials will post a settlement price that will reflect the same differential that was applied on the previous business day. The settlement price will be adjusted accordingly to respect that contract's previous settlement price.

4.3.4 THIRD ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.3.1 and the ancillary procedures in 4.3.2 and 4.3.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

4.4 OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACTS

4.4.1 MAIN PROCEDURE

4.4.1.1 Weighted average

The settlement price shall be the weighted average of the prices traded in the closing range (last minute of trading). If there is at the close, a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price.

4.4.1.2 Last trades

If no trade occurs during the closing range, the market officials will consider transactions executed during the last 30 minutes of trading. Also, to be considered, the bids and offers shall be for a minimum of 25 contracts and shall have been posted at least one minute before the close to be considered.

If no trade occurs in the closing range (or in the last 30 minutes of trading), the settlement price shall be the theoretical price calculated by the Bourse (as described in section 4.4.2). If there is at the close a higher bid or lower offer than the settlement price so obtained, that bid or offer shall be the settlement price.

4.4.2 ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.4.1, the following ancillary procedure will apply.

The settlement price shall be determined by inserting the following parameters into a standard option pricing model (Black & Scholes):

Price of the underlying:

- The Bourse will capture the settlement price of the underlying BAX futures contract. This will be the price of the underlying.

Interest rate:

- The interest rate used will be the rate implied by the settlement price of the BAX futures contract nearest to expiration.

Volatility:

- The Bourse will use the implied volatility (per contract month, for puts and calls) obtained from the acting Market Maker. The same volatility will be applied for both calls and puts.

The strike price of the options' series and the time to expiration are the other parameters that will be inserted into the model.

In determining the closing price, the Bourse shall take into account the information provided by the posted strategy, for example; if the SEP 9200 straddle is 98 bid, the total of the closing prices of these two series should not be inferior to 98.

4.5 30-DAY OVERNIGHT REPO RATE FUTURES CONTRACTS (ONX)

4.5.1 MAIN PROCEDURE

The settlement price shall be the weighted average of all trades during the closing range. The closing range is defined as the last three minutes of the trading session for all contract months.

4.5.1.1 Weighted average of closing range trades

The weighted average will be derived from trades that occurred in the outright months during the closing range. The total volume traded in each outright month must be for 25 or more contracts.

4.5.1.2 Booked orders

If there is an unfilled order with a higher bid price or lower offer price in a month, this bid or offer will override the settlement price obtained from the weighted average. This order must have been posted for 15 seconds or longer prior to the close and its size must be for a total of 25 or more contracts in each of the months.

4.5.1.3 Remaining balances of booked orders partially executed at the close

In the case of a booked order as stipulated in paragraph 4.5.1.2 above, which would be only partially executed, the trades during the closing period as well as the remaining balance of booked orders will be considered to establish the settlement price.

Example 1: If there is a booked order for 25 ONX contracts at 97.92 and 15 of those contracts are executed, the 10 remaining contracts, if they are still present on the market at the same price, will be considered to establish the required minimum of 25 contracts.

Example 2: If there is a trade of 15 ONX contracts during the closing period at 97.92 and there is a booked order bid for 10 ONX contracts at 97.91 (respecting the required time limit), the bid will be considered in addition to the trades in the closing period to establish a settlement price.

4.5.1.4 Strips and spreads

All trades and unfilled booked orders for strips and spreads related to any expiry months will be ignored.

4.5.2 FIRST ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.5.1, the following ancillary procedure will apply.

4.5.2.1 Weighted average of trades on strategies

The settlement price shall be the weighted average of the trades on the strategies traded during the last five minutes provided the volume for the strategy taken into account was of 25 or more contracts.

4.5.2.2 Booked orders

If there is an unfilled order with a higher bid or lower offer, this bid or offer will override the settlement obtained from the weighted average described in 4.5.2.1. It has to have been posted for three minutes or longer prior to the close and the size must be for 25 or more contracts.

4.5.3 SECOND ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.5.1 and the ancillary procedure in 4.5.2, the following ancillary procedure will apply.

4.5.3.1 Differential with the previous contract month's settlement price

The settlement price will be defined by a price that reflects an appropriate differential with the settlement price of the previous contract month always starting with the contract month closest to expiry.

4.5.3.2 Conflicts between spreads

If two spreads are in conflict, the calendar spread closest to expiry will have priority.

4.5.4 THIRD ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.5.1 and the ancillary procedures in 4.5.2 and 4.5.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on the available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

4.6 FUTURES CONTRACTS ON CARBON DIOXIDE EQUIVALENT (CO₂e) UNITS

4.6.1 MAIN PROCEDURE

The settlement price shall be the weighted average of all traded prices during the closing range. The closing range is defined as the last fifteen minutes of the trading session for all contract expiries.

- **Booked orders**

If there is an unfilled order with a higher bid or lower offer in a particular contract expiry, this bid or offer will override the settlement price obtained from the weighted average. This order must have been posted for 20 seconds or longer prior to the close and its size must be for 10 contracts or more.

- **Last trades**

If there are no trades in the last fifteen minutes of trading, then the last trade will be taken into account while still respecting posted bids and offers in the market.

4.6.2 FIRST ANCILLARY PROCEDURE

When two contracts expiries and the spread are trading (calendar roll), the following ancillary procedure will apply.

- The contract having the earliest expiry must be settled first.
- The spread between the two contracts must be settled next by taking into account the last fifteen minutes average trading price and by examining the trades executed during the previous 30 minutes.
- The settlement price for the far-dated contracts corresponds to the difference between the settlement price of the contract having the earliest expiry and the value of the spread.

4.6.3 SECOND ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.6.1 and the ancillary procedure in 4.6.2, the following ancillary procedure will apply.

Market officials will post a settlement price that will reflect the same differential that was applied on the previous trading day. The settlement price will be adjusted accordingly to respect that contract's previous settlement price.

4.6.4 THIRD ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.6.1 and the ancillary procedures in 4.6.2 and 4.6.3, the following ancillary procedure will apply.

In this situation, market officials will establish the settlement price based on available market information. They may also disregard any event (a trade, a bid or an offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

Market officials will register in the “daily settlement price record” the criteria considered for determining the settlement price.

4.7 FUTURES CONTRACTS ON CANADIAN CRUDE OIL

The daily settlement price procedure for Futures contracts on Canadian Crude Oil is executed by a fully automated pricing algorithm which utilizes the parameters described in sections 4.7.1, 4.7.2 and 4.7.3 to ensure accuracy in the process.

DEFINITIONS:

“Regular orders”: Orders routed by approved participants to the Bourse’s trading system.

“Implied orders”: Orders generated by the implied pricing algorithm (using regular orders) and registered in the order book by the trading engine.

4.7.1 IDENTIFICATION OF THE FRONT CONTRACT MONTH

The automated daily settlement pricing algorithm identifies the front contract month from the first two contract months. The front contract month is the one, among the first two contract months, that has the largest open interest and the required market information. In the absence of both these combined criteria, the front contract month shall be determined by market officials based on available market information.

4.7.2 ALGORITHM UTILIZED FOR THE DETERMINATION OF THE DAILY SETTLEMENT PRICE OF THE FRONT CONTRACT MONTH

4.7.2.1 Main Procedure

- A.** Once the front contract month has been identified, the automated daily settlement price algorithm will determine the settlement price of the front contract month according to the following priorities:
 - 1)** first, it will use a weighted average price of cumulated trades executed during the last five minutes of the regular trading session and amounting to at least 10 contracts on that contract month;
 - 2)** if no such average price is available, it will then use the weighted average price of cumulated trades executed during the last 30 minutes of the regular trading session and amounting to at least 10 contracts on that contract month.

- B. Trades resulting from both regular and implied orders will be used in the process.
- C. If no such average price is yet available, the bid price or offer price, that is not the result of implied orders and representing the smallest variation compared to the previous day settlement price will be used.

Once the daily settlement price for the front contract month has been established, it will be verified against the booked orders and if there is a better outright bid or offer that is not resulting from implied orders, the latter will take precedence over the daily settlement price calculated as described in paragraphs 4.7.2.1 A), B) and C) above.

4.7.3 PROCEDURE FOR THE DETERMINATION OF THE DAILY SETTLEMENT PRICE OF THE REMAINING CONTRACT MONTHS

Upon completion of the aforementioned steps, the automated daily pricing algorithm will then establish the settlement prices for all other contract months sequentially. The daily settlement prices of all other contract months will be established as follows:

- A. first it will use the weighted average price of transactions (resulting from regular and implied orders) and strategies executed during the last five minutes of the regular trading session; or,
- B. if no weighted average price can be determined in this manner, then the same variation from the previous day's settlement price as calculated for the preceding contract expiry will be applied while respecting the posted market;

4.7.4 ANCILLARY PROCEDURE

- A. In the absence of the required items to apply the aforementioned procedure, market officials will establish the daily settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.
- B. In this situation, market officials will keep a record of the criteria used to establish the settlement price.

4.8 CANADIAN SHARE FUTURES CONTRACTS

The settlement price shall be the weighted average of all trades during the closing range. The closing range is defined as the last minute of the trading session for all contract months.

4.8.1 MAIN PROCEDURE

- Booked orders

If there is an unfilled order with a higher bid or lower offer in an outright month, this bid or offer will override the settlement price obtained from the weighted average. The order must have been posted for 20 seconds or longer prior to the close and its size must be for a total of 10 contracts or more.

- Last trades

If there are no trades in the last minute of trading, then the last trade will be taken into account while still respecting posted bids and offers in the market.

4.8.2 FIRST ANCILLARY PROCEDURE

When two contract months and the spread are trading (quarterly calendar roll), the ancillary procedure of this section will apply.

- The front month must be settled first (the establishment of the front month is based on the month with the greatest open interest).
- The spread between the two contract months must be settled next by taking into account the average trading price of the last minute and by examining the trades executed during the previous 10 minutes.
- The settlement price for the back month or far month is obtained by the difference between the front month settlement price and the value of the spread.

4.8.3 SECOND ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.8.1 and the ancillary procedure in 4.8.2, the following ancillary procedure will apply.

Market officials will post a settlement price that will reflect the same differential that was applied on the previous day settlement. The settlement price will be adjusted accordingly to respect that contract's previous settlement price.

4.8.4 THIRD ANCILLARY PROCEDURE

In the absence of the items required to apply the main procedure in 4.8.1 and the ancillary procedures in 4.8.2 and in 4.8.3, market officials will establish the daily settlement price based on available market information. They may also disregard any event (trade, bid or offer) which occurs near the end of the regular trading session and which is not compatible with a given settlement price.

In this situation, market officials will keep a record of the criteria used to establish the settlement price.

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.

4.1 ORDER ENTRY ERROR TRADES

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.

4.2 TRADING RANGE

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.

4.3 EARLY SESSION NO CANCEL RANGE

Notwithstanding Section 4.1, during early sessions, the last traded price registered in the underlying security during that session on a Recognized Exchange or an Alternative Trading System as this term is defined in Regulation 21-101 Respecting Marketplace Operation ("Canadian ATS") shall be used to determine the No Cancel Range. If the Market Supervisor determines that the price of the trade executed during the early session was inside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.4. If the Market Supervisor determines that the price of the trade executed during the early session was outside the No Cancel Range, the Market Supervisor will take the appropriate measures in accordance with Section 5.5.

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
Equity, Currency, ETF and Index Options Price ranges:	
\$0.00 to \$5.00	\$0.10
\$5.01 to \$10.00	\$0.25
\$10.01 to \$20.00	\$0.50
\$20.00 up	\$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	\$0.25
\$1.00 up	\$0.50

DERIVATIVE INSTRUMENT	INCREMENT
<p><u>Canadian ShareSingle-Stock Futures Contracts</u> <u>Regular and extended sessions:</u></p> <p><u>Early session:</u></p>	<ol style="list-style-type: none"> 1. <u>\$2.00.50\$, if the acceptable market price of these futures contracts is less than 25\$;</u> 2. <u>1.00\$, if the acceptable market price of these futures contracts is equal to or higher than 25\$ but less than 100\$;</u> 3. <u>1% of the acceptable market price of these futures contracts if the acceptable market price of these futures contracts is equal to or higher than 100\$.</u> <p><u>5% of the acceptable market price of these futures contracts</u></p>
<p>Futures Contracts on Canadian Crude Oil</p>	<p>5% of the acceptable market price of these futures contracts.</p>

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 RISKLESS BASIS CROSS
TRANSACTIONS ON FUTURES CONTRACTS ON S&P/TSX INDICES AND
FUTURES CONTRACTS ON CANADIAN SHARES**

FUTURES CONTRACTS ON S&P/TSX INDICES:

Bourse de Montréal Inc. (the Bourse) authorizes riskless basis cross transactions on listed futures contracts on S&P/TSX indices. The Bourse provides approved participants with a facility that permits the purchase/sale of index futures contracts against cash instruments for an average cash market price plus a pre-negotiated basis. A riskless basis cross has no impact on the existing cash market as the initiated operation results in a riskless transaction in the books of the approved participant.

Approved participants receiving requests from clients who cannot or do not want to hold cash securities in their accounts but who wish to acquire market exposure in the most efficient way possible (either on the cash or exchange-traded fund “ETF” markets) are authorized to do a riskless basis cross. The sole intent and purpose of the riskless basis cross is to allow market participants to use the attributes of the underlying cash market to take on the market position requested by the client and then to replicate it through the use of futures contracts thus leaving the approved participant with no resulting market position and the client with a final position in the futures contract.

Once the terms of the riskless basis cross have been agreed to with the client, the approved participant begins the transaction by taking a position in the cash instruments in its own account on behalf of the client. The approved participant then has to execute the riskless basis cross transaction (by contacting the Market Operations Department of the Bourse) and allocate the futures contract position, functionally equivalent to the cash market exposure, (as initially requested by the client) into the client’s account.

Approved participants must apply the following procedures when executing riskless basis crosses:

- The approved participant accepts the order to execute a transaction on behalf of its client (who wishes to acquire index market exposure with a resulting futures position) for an average cash market price plus a pre-negotiated basis (spread).
- The terms of the transaction should either be a fixed pre-negotiated basis established prior to execution of the transaction or a guaranteed (by the approved participant to the client) closing or executed price of the cash component in which circumstance the basis will be adjusted accordingly.
- The approved participant begins the transaction by acquiring exposure (long or short) in the cash market on its client’s behalf, using securities, baskets of securities, index participation units, or exchange-traded funds comprised of the underlying securities of the related index futures contracts that constitute the

riskless basis cross. For the purpose of this type of operation, these instruments are accumulated in the approved participant's account.

- The cash portion of the riskless basis cross must be comprised of at least 80 percent of the components constituting the underlying index (e.g. for the S&P/TSX 60™ Index, at least 48 constituents must be part of the transaction)
- It is generally expected that, for the purpose of the riskless basis cross, approved participants will use all of the index components when taking position in the cash market. However, there are circumstances which may prevent an approved participant from acquiring certain index components, and the approved participant may therefore exclude these index components from the cash position. Examples of such circumstances include: an index component is on the approved participant's or client's internal restricted list (due to a corporate action involving the issuer of the given component), a specific index component is halted from trading during the day of the operation, market conditions of a specific index component are inadequate (e.g. if liquidity is insufficient to execute the transaction) or any other justifiable situation of a similar nature.
- The cash portion of the riskless basis cross must be reasonably correlated to the underlying index with a correlation coefficient (R) of 90% or more.
- At the time agreed with its client the approved participant executes a riskless basis cross transaction for a predetermined quantity of index futures contracts. One side of this riskless basis cross transaction offsets the approved participant's position in the underlying cash market and the other side of the trade represents the total market exposure requested by the client. The resulting "unhedged" index futures contracts position is then allocated into the client's account.
- A riskless basis cross transaction may only be executed during the regular trading hours of the underlying instrument until the end of the extended session at the Toronto Stock Exchange (TSX). The transaction has to be executed the same day as and after the completion of the cash portion of the operation. In the event that the riskless basis cross operation has to be executed over a several day period, the futures portion of the operation has to be proportionate to the underlying portion at any given execution day.
- To execute the riskless basis cross transaction, the approved participant must provide the details of the concluded transaction to the Market Operations Department of the Bourse by filling out and submitting through the Bourse's Web page http://www.m-x.ca/efp_formulaire_en.php the prescribed "Contingent Trade Reporting Form". Once submitted, the riskless basis cross transaction will be registered by the Market Operations Department in the trading system. The transaction will then be specially marked and displayed in the systems (trading platform and data vendors) at the post trade recap level.
- Once concluded and registered, the riskless basis cross transaction will appear in the "Transaction Report" maintained on the Bourse's Web page http://www.m-x.ca/dailycrosses_en.php.

- There is no minimum time required to display (by the approved participant) the riskless basis cross transaction prior to execution. As soon as it is reported to the Market Operations Department at the Bourse, the transaction will be registered and displayed without delay.
- There is no minimum size restriction for a riskless basis cross transaction.
- There is no requirement for a riskless basis cross transaction to be executed within either the bid and ask or the daily high and low prices.
- The riskless basis cross transaction is excluded from the daily settlement price procedures, but is included in the daily volume figures.
- Approved participants involved in a basis cross transaction may be required to demonstrate to the Bourse:
 - that the transaction is comprised of at least 80% of the components constituting the underlying index; and
 - that the futures portion of the transaction replicates the underlying index and that components of the underlying index that are not included in the riskless basis cross were justifiably excluded (as described above) from the transaction; and
 - that the cash portion of the riskless basis cross has a minimum correlation of 90% to the underlying index; and
 - whether the transaction's pre-negotiated basis was fixed and established prior to the execution of the transaction or resulted from a guaranteed closing or executed price of the cash component; and
 - that the cash position and the futures contracts position (resulting from the riskless basis cross transaction) are properly recorded in both the approved participant's and client's accounts.
- While the approved participant must acquire the cash market position before executing the futures contract leg, the Bourse does not impose any time limit for the retention or liquidation by the approved participant of the cash market position. Once the riskless basis cross has been completed, the approved participant may manage the positions on its books as it sees fit.

FUTURES CONTRACTS ON CANADIAN SHARES:

[Bourse de Montréal Inc. \(the Bourse\) authorizes riskless basis cross transactions on listed Share Futures contracts. The Bourse provides approved participants with a facility that permits the purchase/sale of Share Futures contracts against the underlying cash instrument for an average cash market price plus a pre-negotiated basis. A riskless basis cross has no impact on the existing cash market as the initiated operation results in a riskless transaction in the books of the approved participant.](#)

Approved participants receiving requests from clients who cannot or do not want to hold cash securities in their accounts but who wish to acquire market exposure in the most efficient way possible on the cash market are authorized to do a riskless basis cross. The sole intent and purpose of the riskless basis cross is to allow market participants to use the attributes of the underlying cash market to take on the market position requested by the client and then to replicate it through the use of futures contracts thus leaving the approved participant with no resulting market position and the client with a final position in the futures contract.

Once the terms of the riskless basis cross have been agreed to with the client, the approved participant begins the transaction by taking a position in the cash instruments in its own account on behalf of the client. The approved participant then has to execute the riskless basis cross transaction (by contacting the Market Operations Department of the Bourse) and allocate the futures contract position, functionally equivalent to the cash market exposure, (as initially requested by the client) into the client's account.

Approved participants must apply the following procedures when executing riskless basis crosses:

- The approved participant accepts the order to execute a transaction on behalf of its client (who wishes to acquire a cash market exposure with a resulting futures position) for an average cash market price plus a pre-negotiated basis (spread).
- The terms of the transaction should either be a fixed pre-negotiated basis established prior to execution of the transaction or a guaranteed (by the approved participant to the client) closing or executed price of the cash component in which circumstance the basis will be adjusted accordingly.
- The approved participant begins the transaction by acquiring exposure (long or short) in the cash market on its client's behalf, using the underlying security of the related Share Futures contract that constitute the riskless basis cross. For the purpose of this type of operation, these instruments are accumulated in the approved participant's account.
- The cash portion of the riskless basis cross must be comprised of the underlying stock of the Share Futures contract.
- At the time agreed with its client the approved participant executes a riskless basis cross transaction for a predetermined quantity of Share Futures contracts. One side of this riskless basis cross transaction offsets the approved participant's position in the underlying cash market and the other side of the trade represents the total market exposure requested by the client. The resulting "unhedged" Share Futures contracts position is then allocated into the client's account.
- A riskless basis cross transaction may only be executed during the regular trading hours of the underlying instrument until the end of the extended session at the Toronto Stock Exchange (TSX). The transaction has to be executed the same day as and after the completion of the cash portion of the operation. In the event that the riskless basis cross operation has to be executed over a several day period, the futures portion of the operation has to be proportionate to the underlying portion at any given execution day.

- To execute the riskless basis cross transaction, the approved participant must provide the details of the concluded transaction to the Market Operations Department of the Bourse by filling out and submitting through the Bourse's Web page http://www.m-x.ca/efp_formulaire_en.php the prescribed "Contingent Trade Reporting Form". Once submitted, the riskless basis cross transaction will be registered by the Market Operations Department in the trading system. The transaction will then be specially marked and displayed in the systems (trading platform and data vendors) at the post trade recap level.
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- There is no minimum size restriction for a riskless basis cross transaction.
- There is no requirement for a riskless basis cross transaction to be executed within either the bid and ask or the daily high and low prices.
- The riskless basis cross transaction is excluded from the daily settlement price procedures, but is included in the daily volume figures.
- Approved participants involved in a basis cross transaction may be required to demonstrate to the Bourse:
 - whether the transaction's pre-negotiated basis was fixed and established prior to the execution of the transaction or resulted from a guaranteed closing or executed price of the cash component; and
 - that the cash position and the futures contracts position (resulting from the riskless basis cross transaction) are properly recorded in both the approved participant's and client's accounts.
- While the approved participant must acquire the cash market position before executing the futures contract leg, the Bourse does not impose any time limit for the retention or liquidation by the approved participant of the cash market position. Once the riskless basis cross has been completed, the approved participant may manage the positions on its books as it sees fit.