

MONTRÉAL EXCHANGE

Basic Guidelines

Understanding the user defined strategies (UDS) facility

What is UDS?

The user-defined strategies (UDS) facility allows participants to create customized option strategies based on their individual risk management needs.

How do I create strategies on UDS?

To create strategies via UDS, participants send messages containing the UDS parameters to the Montréal Exchange's (MX) trading engine using the SAIL protocol. The strategy will then be disseminated to all participants in real time, via MX's High Speed Vendor Feed.

What types of strategies are supported by UDS?

TWO-LEGGED STRATEGIES

- Call spread
- Put spread
- Straddle
- Strangle
- Synthetic position (Risk Reversal)
- Synthetic position with split strikes
- 1:2 ratio call spread
- 1:2 ratio put spread
- 1:3 ratio call spread
- 1:3 ratio put spread
- 1:4 ratio call spread
- 1:4 ratio put spread

THREE-LEGGED STRATEGIES

- Call Butterfly
- Put Butterfly
- Call Ladder
- Put Ladder

FOUR-LEGGED STRATEGIES

- Condor
- Iron Condor
- Iron Butterfly
- Double Diagonal

Will my strategy be created as I defined it in my creation request?

Not always. Your requested strategy will first be compared to existing UDS and exchange-defined strategies (EDS). The system compares strategies built from the same option series, reducing the ratios and reversing the leg order, if required, to match your strategy to an existing one. Before the ratios are reduced, each leg is sorted by:

1. The buying leg first;
2. The nearest expiration date;
3. The lowest strike price first for spreads (except for put spreads where the higher strike comes first);
4. Calls before puts;
5. The lowest leg ratio

If no matching UDS or EDS is found, the strategy will then be compared to strategy profiles that MX recognizes as valid. Here again, the leg ratios and/or the leg order may be adjusted to match the strategy profile.

As such, the strategy that is created may not be defined as in your request, i.e. the leg ratios may be smaller and the leg order reversed. In such an event, the system will include a flag stating that a modification has occurred when acknowledging your strategy creation request.

Once your strategy has been created, managing the order on the strategy includes adjusting the order's quantity, verifying the action (buy/sell) and entering the price accordingly.

Is there a limit to the number of strategies I can create?

Yes, the daily UDS creation limit is 1,000 strategies per approved participant (domestic or foreign).

Are implied orders generated in UDS?

Yes, the implied pricing (IP) algorithm is active for all UDS.

An implied order is an order generated synthetically from two or more regular orders that are already registered in the order book. These orders could come from individual legs or an individual leg and a strategy involving that leg. Regular orders (non-implied) always have price/time priority over implied orders.

How should I interpret the disseminated implied quotes in HSVF?

The implied market of the strategy is generated virtually to represent what the market, as a whole, is willing to bid or offer on the requested strategy. This achieves, in a single transaction, what would otherwise have to be legged, reducing the risk of the market moving between the entry of the orders comprising the legs of the strategy.

Quotes implied on a strategy represent the structure of the strategy along with the available leg prices. The trading system will always seek to display the highest possible tradable quantity for any instrument. That quantity is limited by what is available on the legs (if the instrument is a strategy). As more than one strategy can imply orders on the same leg, the system will not limit the implied quantity on an instrument according to how many strategies use the instrument; which can explain discrepancies between implied quantities and tradable quantities as disseminated through HSVF.

For more information on implied pricing for options, please [click here](#).

How should I interpret UDS' net debit and credit?

Each trade is executed for two parties, the buyer and the seller. In a transaction, one account will receive a "debit" entry (cash outflow) and the other account will receive a "credit" entry (cash inflow).

For example, if a participant buys a September 64.00 call option at \$1.76 (+\$1.76 outflow) and sells a May 62.00 call at \$0.32 (\$ -0.32 inflow), the UDS will display a \$1.44 debit for the calendar spread strategy.

For more information

equityderivatives@tmx.com

m-x.ca

Copyright © 2021 Bourse de Montréal Inc. All rights reserved. Do not copy, distribute, sell or modify this document without Bourse de Montréal Inc.'s prior written consent. This information is provided for information purposes only. This publication is not endorsed by TMX Group or any of its affiliated companies. Neither TMX Group Limited nor any of its affiliated companies guarantees the completeness of the information contained in this publication, and we are not responsible for any errors or omissions in or your use of, or reliance on, the information. This publication is not intended to provide legal, accounting, tax, investment, financial or other advice and should not be relied upon for such advice. The information provided is not an invitation to purchase securities or derivatives listed on Montreal Exchange, Toronto Stock Exchange and/or TSX Venture Exchange. TMX Group and its affiliated companies do not endorse or recommend any securities referenced in this publication. Montréal Exchange and MX are the trademarks of Bourse de Montréal Inc. TMX, the TMX design, The Future is Yours to See., and Voir le futur. Réaliser l'avenir. are the trademarks of TSX Inc. and are used under license.