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M^e Jean-Philippe Joyal
Legal Counsel, Legal Affairs, Derivatives
Bourse de Montréal Inc.
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M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des Marchés Financiers
Tour de la Bourse
P.O. Box 246, 800 Victoria Square, 22nd Floor
Montréal, Québec H4Z 1G3

Dear M^e Joyal and M^e Beaudoin:

Re: Requests for comments - as per Circular 034-16 and 035-16 issued by Bourse de Montréal Inc. on March 23, 2016

The Investment Industry Association of Canada (the "IIAC") would like to take this opportunity to express its views on the proposed changes via Requests for comments - as per Circular 034-16 and 035-16 issued by Bourse de Montréal Inc. on March 23, 2016.

The IIAC is the national association representing the position of 137 IIROC-regulated Dealer Member firms on securities regulation, public policy and industry issues. We work to foster a vibrant, prosperous investment industry driven by strong and efficient capital markets.

The IIAC would like to thank Bourse de Montréal Inc. for putting forward amendments to:

- Articles 5201, 6004, 6005, 6007, 6310, 6375, 6379, 6380, 6381, 6383, 6384, 6385, 6388, 6393, 6393A, 6636.1, 6671, 6815, 6815A, 6816 of the rules of the Bourse as listed in Circular 034-16.
- the Procedures applicable to the execution of cross transactions and the execution of prearranged transactions, the Procedures applicable to the execution of block trades, the Procedures applicable to the execution of riskless basis cross transactions on futures contracts on S&P/TSX indices and on share futures, the Procedures for the cancellation or adjustment of trades, and to the 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 of the Bourse as listed in Circular 034-16.
- Articles 6392 and 6633 of the Rules of the Bourse as listed in Circular 035-16.

Furthermore, the IIAC welcomes the introduction of articles 6024 and 6376A as listed in Circular 035-16.

The IIAC generally believes that the rule modifications will provide greater clarity for market participants and will be aligned with current practices in the industry. We also believe, as do our members, that the modernization of the language of the rules will be beneficial to industry participants.

Furthermore, we welcome incorporation of the various Procedures into the Rules of the Bourse.

The IIAC is generally in agreement with the proposals however, we would like to submit comments as noted below for your consideration:

Circular 034-16:

Article 6310 – Best Execution

6310 – The wording of the proposal implies that the Bourse may be assessing Best Execution on a trade by trade basis. However, as stated during the pre-consultation meeting, we believe this rule should be assessed at the participant's policy level, not at an individual trade level. This would be consistent with IIROC's interpretation and assessment methodology of the Best Execution Obligation. We suggest that the proposed rule incorporate additional language to allow for further clarification.

Article 6375 – Allocation of tradeable orders

6375 – The addition of the sentence that stop limit orders are to be presented to the market as soon as their triggering limit is reached may negate the possibility of working an order once the order is triggered by the stop limit price. We believe the wording should be amended to allow for this in the same way 6379 does since “article 6379 is updated to provide that an approved participant shall not withhold or withdraw from the market any order, or any part of an order, for the benefit of any person other than the person placing the order”. As per the Bourse’s description and analysis of market impacts (page 3 of the circular): “This amendment is intended to ensure that the language of article 6379 is not interpreted in a manner which impedes a broker from “working” an order while assuring proper treatment of customer orders.”

Article 6380 - Transactions required on Bourse Facilities

6380 c) 1) iii) – This section mentions that the party that initiates communication regarding a prearranged transaction shall have his or her order entered into the trading system first. The phrase “unless the parties...agree otherwise” would imply that a confirmation of this agreement be attained on each and every order. This is not logistically feasible for the members of the industry. We would suggest that the Bourse allow the broker-dealers to collect some form of blanket authorization from each client to allow this agreement to be in place indefinitely, without removing or replacing an Approved Participant’s ability to rely on/obtain verbal consent on an order by order basis.

Similarly, the consent from a customer to the Approved Participant engaging in prearranging communications on the customer’s behalf, as included in article 6380 c) 1) i), should also be authorized on a blanket basis, once again, without removing or replacing an Approved Participant’s ability to rely on/obtain verbal consent on an order by order basis.

6380 d) 1) x) – this section of the article specifically states that the validation of the Block Trade details by the Bourse is “not a confirmation by the Bourse” that the trade is in accordance with the rules. We are of the opinion that the Bourse should take responsibility for and be able to provide this confirmation.

Furthermore, the article 6380 d) 1) vi) states that “the price at which a block trade is arranged must be “fair and reasonable” in light of (a) the size of the block trade; (b) currently traded prices and bid and ask prices in the same derivative instrument; (c) the underlying markets; and (d) general market conditions, all at the relevant time”. We believe broker-dealers should be given more information on the level of documentation that is expected by the Bourse to prove fairness and reasonableness of a block trade, but also of a riskless basis cross transaction.

The documentation aspect becomes important since the rules mentions that “Each party to a riskless basis cross transaction must keep full and complete records relating to the riskless basis cross transaction and must provide to the Bourse upon request complete records and documentary evidence relating to such transaction demonstrating that the transaction is a bona fide transaction and that it has been carried out in accordance with the conditions of this article”.

Article 6388 – Daily Price Limits and Article 6636.1 – Trading Halts

6388/6636.1 – Abrogating rule 6388 and including the new wording in 6636.1 would never allow for halts on CGBs/BAXs. This was likely unintended, and while the likelihood of requiring a halt on interest rate futures would be quite small, we believe the wording should allow for such a halt if it ever needs to be implemented.

Article 6815 – Exchanges for Related Products (EFRP)

6815 1) h) – The proposal mentions that “the price at which an EFRP transaction is arranged must be “fair and reasonable” in light of (i) the size of the transaction; (ii) currently traded prices and bid and ask prices in the same contract; (iii) the underlying markets; and (iv) general market conditions, all at the relevant time. Although there is no requirement for an EFRP to be executed within the daily high and low prices, execution outside of that price range may result in a request by the Regulatory Division for additional information about the transaction”. Broker-dealers have requested further information from the Bourse regarding their documentation of “fairness and reasonableness”. We believe it would be helpful to get an idea of what level of documentation around this fair and reasonable price will be expected by the Bourse.

Furthermore, the members have noted that there are several mentions of “accredited counterparty” – we feel that this could lead to onerous documentation requirements, and it may be helpful to leverage IIROC’s Acceptable Institutions and Acceptable Counterparties (“AI/AC”) definitions either in addition to, or as opposed to “accredited counterparty”.

Circular 035-16:**Article 6376 – Order Identification**

6376 – While this is not included in the amendments, we feel that the wording of this section is inconsistent with the expectations of the Bourse. The Bourse expects our members to mark orders as “firm” when they receive and enter an order for one of their clients who also happens to be an Approved Participant or Foreign Approved Participant. However, the rule does not say that. We are in agreement with the rule as worded, but not the expectation to mark client orders as “firm”. Our members want to mark only their own orders as “firm”, as mentioned in the rule. Therefore, the Bourse should follow their own rule as written and not amend the rule.

As previously mentioned, the IIAC and our members generally welcome the proposed amendments and believe the proposals will facilitate trading on the Bourse facilities.

Lastly, the IIAC has welcomed pre-consultation on the amendments to the different articles and remains available for further consultations.

Yours sincerely,



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