FORM FBOT—EXHIBIT E-1

Request: Attach a description of the terms and conditions of futures, option, or swap contracts intended to be made available for direct access. With respect to each contract, indicate whether the contract is regulated or otherwise treated as a futures, option, or swap contract in the regulatory regime(s) of the foreign board of trade's home country.

Response:

I. Terms and Conditions of Contracts To Be Made Available for Direct Access

MX intends to make fourteen futures contracts or options on futures contracts available for direct access from the United States. As discussed in greater detail below, each is regulated in MX's home jurisdiction of Quebec as an exchange-traded derivative, the equivalent of a futures or option on a future contract under the Commodity Exchange Act. The fourteen contracts are:

- Three-Month Canadian Bankers' Acceptance Futures (BAX)
- Options on Three-Month Canadian Bankers' Acceptance Futures (four types: OBW, OBX, OBY, and OBZ)
- 30-Day Overnight Repo Rate Futures (ONX)
- Overnight Index Swap Futures (OIS)
- Two-Year Government of Canada Bond Futures (CGZ)
- Five-Year Government of Canada Bond Futures (CGF)
- Ten-Year Government of Canada Bond Futures (CGB)
- Thirty-Year Government of Canada Bond Futures (LGB)
- Options on Ten-Year Government of Canada Bond Futures (OGB)
- S&P/TSX 60 Index Standard Futures (SXF)
- S&P/TSX 60 Index Mini Futures (SXM)

Each is summarized below.[1]

A. Three-Month Canadian Bankers' Acceptance Futures (BAX)

BAX futures were the first interest rate contracts listed on MX. They are recognized as the benchmark for Canadian short-term interest rates.

BAX are quoted on an index basis: 100 minus the annualized yield of three-month Canadian bankers' acceptances. The trading unit for BAX represents a bankers' acceptance having a nominal value of C$1,00,000 with a three-month maturity. BAX are cash-settled.

Three years of quarterly BAX contracts are listed at all times. The standard quarterly cycle consists of March, June, September, and December. In addition, two near-term contracts are listed at all times so there are always three consecutive front months listed. These serial futures are identical to the standard BAX contracts except for the expiry months.

[1] *See also* Attachment 22, Terms and Conditions of Contracts to be Made Available for Direct Access

The final settlement price is based on the average of the three-month Canadian Bankers' Acceptance bid rates as quoted on the CDOR page of Reuters Monitor Service on the last trading day, at 10:15 a.m. Montréal time, excluding the highest and lowest values.

In the Canadian financial markets, bankers' acceptances are the barometer of short-term commercial interst rates. Introduced in Canada in 1962, bankers' acceptances are commercial drafts or short-term debt obligations that have been "accepted" by one of Canada's major banks. Bankers' acceptances are issued on behalf of the bank's customer for repayment after a predetermined period, and in minimum denominations of C$100,000.

B. Options on Three-Month Canadian Bankers' Acceptance Futures (OBW, OBX, OBY, and OBZ)

Four types of options on Three-Month Canadian Bankers' Acceptance Futures will be available for direct access. These American-style options vary based on the underlying BAX contract.

For OBX, OBY, and OBZ options, the contract months are the four nearest months in the March, June, September, December quarterly cycle. For OBW options, the contract months are the two nearest non-quarterly months (serials) in the January, February, April, May, July, August, October, November cycle.

These options are quoted in points, where each 0.01 point (1 basis point) represents C$25. For example, a quote of 0.465 represents a total option premium of C$1,162.50 (*i.e.*, 46.5 basis points x C$25). The price fluctuation is 0.005 = C$12.50 per contract.

Cabinet trades (options with a premium less than 0.01) are quoted in 0.001 point (0.1 basis point), where each .001 point represents C$2.50. The price fluctuation for cabinet trades is 0.001 = C$2.50 per contract.

For OBX options, trading ceases at 10 a.m. Montréal time on the second London banking day prior to the third Wednesday of the contract month. If the fixed day is a Bourse or bank holiday in Montréal or Toronto, the last trading day is the previous bank business day.

For OBW, OBY, and OBZ options, trading ceases at 10 a.m. Montréal time on the Friday immediately preceding the third Wednesday of the contract month. If the fixed day is a Bourse or bank holiday in Montréal or Toronto, the last trading day is the previous bank business day.

Each contract is described more specifically below.

1. OBX

For standard OBX options, the underlying BAX contract is the futures contract that expires in the month in which the option expires.

2. OBW

For serial mid-curve OBW options, the underlying BAX contract is the futures contract that expires one year from the next quarterly month that is nearest to the expiration of the option.

For example, the underlying futures contract for the one-year mid-curve OBW option that expires in January or February is the March BAX futures contract in the next calendar year.

3. OBY

For OBY one-year quarterly mid-curve options, the underlying BAX contract is the corresponding quarterly futures contract that expires one year after the option expires. For example, the underlying futures contract for the one-year quarterly mid-curve OBY option that expires in June is the June BAX futures contract in the next calendar year.

4. OBZ

For OBZ two-year quarterly mid-curve options, the underlying BAX contract is the corresponding quarterly futures contract that expires two years after the option expires. For example, the underlying futures contract for the two-year quarterly mid-curve OBZ option that expires in June is the June BAX futures contract in two calendar years.

C. **30-Day Overnight Repo Rate Futures (ONX)**

The ONX futures contract is based on the overnight repo rate (CORRA). The current price of the contract will reflect both the average overnight repo rate up to that point in the month, as well as the market's expectations for the overnight repo rate for the remainder of the month. The price of the contract is 100 minus the monthly average overnight repo rate for the contract month.

Each contract shall be for a nominal value of C$5,000,000. The contract months are the nearest four calendar months. The final day of trading is the last business day of the contract month. The minimum price fluctuation is 0.01 = C$41.10 (1/100 of one percent of C$5,000,000 on a 30-day basis).

The contracts is cash settled against the monthly average of the daily overnight rep rate for the contract month. The daily overnight repo rate (CORRA) is calculated and reported by the Bank of Canada. The monthly average is a simple arithmetic average corresponding to the sum of the daily overnight repo rates divided by the number of calendar days in the month. Weekend and holiday rates are considered to be the rate applicable on the previous business day for which a rate was reported. For example, Friday's rate is used for Saturday and Sunday rates. The final settlement price is determined on the first business day following the last day of trading.

D. **Overnight Index Swap Futures (OIS)**

The OIS futures contract is based on the compounded daily overnight repo rate (CORRA) quoted in terms of an overnight repo rate index. The index is set at 100 – R, where R = the compounded daily overnight repo rate for the contract month, calculated according to the following formula:

$$R = \left[\prod_{i=1}^{d_0}\left(1 + \frac{ORR_i \times n_i}{365}\right) - 1\right] \times \frac{365}{d} \times 100$$

Where: "d_0" = the number of Business Days in the calculation period; "*i*" is a series of whole numbers from one to d_0, each representing the relevant Business Day in chronological order, and including the first Business Day in the relevant calculation period; "ORR_i" = the overnight repo rate on the i^{th} day of the calculation period (and if the i^{th} day is not a business day, the previous available CORRA is used); "n_i" = the number of calendar days in the relevant calculation period on which the rate is ORR_i; and "*d*" is the number of calendar days in the relevant calculation period.

Each contract shall be for a nominal value of C$5,000,000. The contract months will be listed to match the Bank of Canada's schedule of Fixed Announcement Dates (the dates on which the Bank of Canada announces changes to the target overnight rate[2]). The last trading day is the day of a Bank of Canada Fixed Announcement Date. The minimum price fluctuation shall be 0.001 = C$6.25 (one-tenth of 1/100 of one percent of C$5,000,00 on a 45.625/365 day basis).

The contract is cash settled. The final settlement price shall be determined by the Bourse and shall be equal to 100 minus the compound daily overnight repo rate expressed in terms of an overnight repo rate index and calculated over the period of the contract month that begins the day following the last Bank of Canada Fixed Announcement Date to the day of the next Bank of Canada Fixed Announcement Date. Weekend and holiday rates are considered to be the rate applicable on the previous business day for which a rate was reported. For example, Friday's rate is used for Saturday and Sunday rates. The final settlement price is rounded to the nearest $1/10^{th}$ of one basis point (0.001). In the case a decimal fraction ends with 0.0005 or higher, the final settlement price shall be rounded up. The final settlement price is determined on the first business day following the last day of trading.

E. Two-Year Government of Canada Bond Futures (CGZ)

The CGZ futures contract is based on a C$200,000 nominal value Government of Canada bond with a 6% notional coupon. It is settled by physical delivery of Government of Canada bonds which: have a remaining time to maturity of between 1½ years and 2½ years as of the first day of the delivery month, calculated by rounding down to the nearest whole month period; have an outstanding amount of at least C$2.4 billion in value; are originally issued at two-year Government of Canada bond auctions; and are issued and delivered on or before the 15^{th} day preceding the first delivery notice day of the contract.

The contract months are March, June, September, and December. Par is on the basis of 100 points, where one point equals C$2,000. The price fluctuation is 0.005 = C$10. Trading ceases at 1 p.m. Montréal time on the 7^{th} business day preceding the last business day of the delivery month.

F. Five-Year Government of Canada Bond Futures (CGF)

The CGF futures contract is based on a C$100,000 nominal value Government of Canada bond with a 6% notional coupon. It is settled by physical delivery of Government of Canada bonds which: have a remaining time to maturity of between 3½ years and 5¼ years as of the first day of the delivery month, calculated by rounding down to the nearest whole month period; have an outstanding amount of at least C$3.5 billion nominal value; are originally issued at five-year

[2] *See* http://www.bankofcanada.ca/monetary-policy-introduction/key-interest-rate/.

Government of Canada bond auctions; and are issued and delivered on or before the 15th day preceding the first delivery notice day of the contract.

The contract months are March, June, September, and December. Par is on the basis of 100 points, where one point equals C$1,000. The price fluctuation is 0.01 = C$10. Trading ceases at 1 p.m. Montréal time on the 7th business day preceding the last business day of the delivery month.

G. Ten-Year Government of Canada Bond Futures (CGB)

The CGB futures contract is based on a C$100,000 nominal value Government of Canada bond with a 6% notional coupon. It is settled by physical delivery of Government of Canada bonds which: have a remaining time to maturity of between 8 years and 10½ years as of the first day of the delivery month, calculated by rounding down to the nearest whole month period; have an outstanding amount of at least C$3.5 billion nominal value; are originally issued at ten-year Government of Canada bond auctions; and are issued and delivered on or before the 15th day preceding the first delivery notice day of the contract.

The contract months are March, June, September, and December. Par is on the basis of 100 points, where one point equals C$1,000. The price fluctuation is 0.01 = C$10. Trading ceases at 1 p.m. Montréal time on the 7th business day preceding the last business day of the delivery month.

H. Thirty-Year Government of Canada Bond Futures (LGB)

The LGB futures contract is based on a C$100,000 nominal value Government of Canada bond with a 6% notional coupon. It is settled by physical delivery of Government of Canada bonds which: have a remaining time to maturity of between 21 years and 33 years as of the first day of the delivery month, calculated by rounding down to the nearest whole month period; have an outstanding amount of at least C$3.5 billion nominal value; are originally issued at thirty-year Government of Canada bond auctions; and are issued and delivered on or before the 15th day preceding the first delivery notice day of the contract.

The contract months are March, June, September, and December. Par is on the basis of 100 points, where one point equals C$1,000. The price fluctuation is 0.01 = C$10. Trading ceases at 1 p.m. Montréal time on the 7th business day preceding the last business day of the delivery month.

I. Options on Ten-Year Government of Canada Bond Futures (OGB)

The trading unit for OGB options contract is one Ten-Year Government of Canada Bond Futures (CGB) contract. OGB are American-style options.

The contract months are March, June, September, and December, plus monthly options contracts based on the next quarterly futures contract that is nearest to the options contract. The contract is quoted in points, where each 0.005 point (0.5 basis point) represents C$5. The price fluctuation is 0.005 = C$5. Trading ceases on the 3rd Friday of the month preceding the options contract month provided, however, that such Friday is a business day and precedes by at least two business days the 1st notice day of the underlying futures contract.

J. **S&P/TSX 60 Index Standard Futures (SXF)**

Underlying the SXF contract is the S&P/TSX 60 index, which is a capitalization weighted index of the 60 largest and most liquid stocks listed on the Toronto Stock Exchange. A trading unit is C$200 x S&P/TSX 60 index value

The contract months are June, September, and December. The contract is quoted in index points, expressed to two decimals. Price fluctuations are 0.10 index points for outright positions and 0.01 index points for calendar spreads. A trading halt will be invoked in conjunction with the triggering of "circuit breaker" in the underlying stocks. Trading ceases on the trading day prior to the Final Settlement day.

The contract is cash settled. The final settlement price is the Official Opening Level of the underlying index on the Final Settlement Day. The Final Settlement Day is the 3rd Friday of the contract month, providing it is a business day; if not, the preceding day.

K. **S&P/TSX 60 Index Mini Futures (SXM)**

Underlying the SXM contract is the S&P/TSX 60 index, which is a capitalization weighted index of the 60 largest and most liquid stocks listed on the Toronto Stock Exchange. A trading unit is C$200 x S&P/TSX 60 index value. The mini contract is intended to allow greater participation by retail investors, and is one-quarter the size of the standard contract.

The contract months are June, September, and December. The contract is quoted in index points, expressed to two decimals. Price fluctuations are 0.10 index points for outright positions and 0.01 index points for calendar spreads. A trading halt will be invoked in conjunction with the triggering of "circuit breaker" in the underlying stocks. Trading ceases on the trading day prior to the Final Settlement day.

The contract is cash settled. The final settlement price is the Official Opening Level of the underlying index on the Final Settlement Day. The Final Settlement Day is the 3rd Friday of the contract month, providing it is a business day; if not, the preceding day.

II. Treatment of these Contracts by the AMF

All of the contracts within the scope of this application are regulated under the terms of the Québec Derivatives Act. The Derivatives Act does not distinguish among contracts using the same definitions as the CEA with respect to "futures," "options," "swaps," and "forwards." The Derivatives Act relies on a flexible definition of "derivative," which covers "an option, a swap, a futures contract, a contract for difference or any other contract or instrument whose market price, value, or deliver or payment obligations are derived from, referenced to or based on an underlying interest, or any other contract or instrument designated by regulation or considered equivalent to a derivative on the basis of criteria determined by regulation."[3] The contracts above fall within this Québec Derivatives Act definition. It is equally clear, however, that the contracts would be defined, if offered on a U.S. designated contract market, under the Commodity Exchange Act, as futures contracts or options on futures contracts.[4]

[3] Attachment 11, Quebec Derivatives Act, § 3.
[4] Commission Rule 48.7(c)(1)(i).

FORM FBOT—EXHIBIT E-2

Request: Demonstrate that the contracts are not prohibited from being traded by United States persons, i.e., the contracts are not prohibited security futures or single stock contracts or narrow-based index contracts. For non-narrow based stock index futures contracts, demonstrate that the contracts have received Commission certification pursuant to the procedures set forth in § 30.13 and Appendix D to part 30 of this chapter.

Response:

The contracts within the scope of this application are not prohibited from being traded by United States persons. The contracts are not prohibited security futures, single-stock contracts, or narrow-based index contracts.

I. Non-Security Futures

As described in Exhibit E-1, the Three-Month Canadian Bankers' Acceptance Futures (BAX), 30-Day Overnight Repo Rate Futures (ONX), and Overnight Index Swap Futures (OIS) are not security futures, single-stock contracts, or narrow-based index contracts. Accordingly, they are not prohibited from being traded by U.S. persons.

II. Options

As described in Exhibit E-1, the Options on Three-Month Canadian Bankers' Acceptance Futures (OBW, OBX, OBY, OBZ) and Options on Ten-Year Government of Canada Bond Futures (OGB) are not security futures, single-stock contracts, or narrow-based index contracts. Accordingly, they are not prohibited from being traded by U.S. persons.

III. Exempt Security Futures

Government of Canada bonds are the underlying for the Two-Year Government of Canada Bond Futures (CGZ), Five-Year Government of Canada Bond Futures (CGF), Ten-Year Government of Canada Bond Futures (CGB), and Thirty-Year Government of Canada Bond Futures (LGB). Because of exemptions in the Securities Exchange Act of 1934, these contracts are not prohibited security futures.

The Exchange Act definition of a "security future" does not apply to "an exempted security under section 3(a)(12) of the Securities Exchange Act of 1934."[1] The section 3(a)(12) definition of an exempted security includes "such other securities . . . as the Commission may . . . exempt from one or more provisions of this title which by their terms do not apply to an "exempted security" or to "exempted securities.""[2] Exchange Act Rule 3a12-8 exempts certain government bonds from such provisions, for the purposes of the offer, sale, or confirmation of foreign futures contracts that require delivery outside of the United States and are traded on or through a board of trade.[3] Government of Canada bonds are included in the list of exempt

[1] Sec. Exch. Act. § 3(a)(55)
[2] Sec. Exch. Act. § 3(a)(12)(A)(vii).
[3] *See* 17 C.F.R. § 240.3a12-8.

foreign government securities.[4] Accordingly, qualifying futures contracts with Government of Canada bonds as the underlying interest are not prohibited security futures.

The CGZ, CGF, CGB, and LCB contracts are qualifying futures contracts; that is, they are traded on a board of trade (MX), and require delivery outside of the United States. So, these contracts are not prohibited security futures.

IV. Non-Narrow-Based Index Contracts

The S&P/TSX 60 Index Standard Futures (SXF) and S&P/TSX 60 Index Mini Futures (SXM) contracts are not narrow-based index contracts. Both contracts comply with the procedures set forth in § 30.13 and Appendix D.

The SXF contract is the subject of an existing no-action letter issued by the Commission's Office of General Counsel.[5] MX, by letter dated October 25, 2011, certified to the Commission under rule 30.13(n) that the futures contract on the S&P/TSX index remains fully compliant with the requirements of that letter.[6]

On March 28, 2012 MX submitted to the Commission an application for accelerated review of the SXM contract in reliance on the no-action relief provided for the SXF contract.[7] By letter dated April 19, 2012, the Division of Market Oversight confirmed that the SXM contract may be made available for offer and sale within the United States.

[4] *Id.*
[5] *See* Attachment 23, CFTC Letter No. 00-22 (Dec. 9, 1999).
[6] *See* Letter dated October 25, 2011 to Mr. David Stawick from Francois Gilbert.
[7] *See* 17 C.F.R. § 30.13(m); Attachment 46, SXM Certification under CFTC § 30.13(m).

FORM FBOT—EXHIBIT E-3

Request: Demonstrate that the contracts are required to be cleared.

Response:

MX rules require that, unless provided in Exchange Regulations or specifically authorized by the Exchange, "all transactions effected on the Exchange shall be cleared."[1] Approved participants must either be members of the CDCC, or must have their transactions cleared by a member of the CDCC.[2]

[1] Attachment 14, Montréal Exchange Rule 6021.
[2] Rule 6023.

FORM FBOT—EXHIBIT E-4

Request: Identify any contracts that are linked to a contract listed for trading on a United States-registered entity, as defined in section 1a(40) of the Act. A linked contract is a contract that settles against any price (including the daily or final settlement price) of one or more contracts listed for trading on such registered entity.

Response:

MX does not list any "linked contracts" for trading through direct access as defined in Commission Rule 48.2. As noted above, Commission Rule 48.2 defines a "linked contract" as a contract that "settles against any price (including the daily or final settlement price) of one or more contracts listed for trading on a registered entity."

FORM FBOT—EXHIBIT E-5

Request: Identify any contracts that have any other relationship with a contract listed for trading on a registered entity, i.e., both the foreign board of trade's and the registered entity's contract settle to the price of the same third party-constructed index.

Response:

None of the contracts traded on MX have any other relationship with a contract listed for trading on a registered entity. There are no contracts traded on MX that settle to the same third-party-constructed index as a contract traded on a registered entity.

FORM FBOT—EXHIBIT E-6

Request: Demonstrate that the contracts are not readily susceptible to manipulation. In addition, for each contract to be listed, describe each investigation, action, proceeding or case involving manipulation and involving such contract in the three years preceding the application date, whether initiated by the foreign board of trade, a regulatory or self-regulatory authority or agency or other government or prosecutorial agency. For each such action, proceeding or case, describe the alleged manipulative activity and the current status or resolution thereof.

Response:

I. Physically-Settled Futures

Four of the contracts that will be available for direct access are physically-settled futures on Government of Canada bonds (the CGZ, CGF, CGB, and LGB contracts). The very large supply of the bonds deliverable on these futures contracts make the futures contracts not readily susceptible to manipulation.

The market for Government of Canada bonds is substantial. As of April 5, 2012, the total value of bonds eligible for delivery under these contracts was approximately:[1]

(millions of CAN $)	**Jun. 2012**	**Sep. 2012**	**Dec. 2012**	**Mar. 2013**
Two-Year (CGZ)	30,980	19,867	9,000	N/A
Five-Year (CGF)	42,242	30,900	30,900	21,000
Ten-Year (CGB)	32,100	19,000	19,000	19,000
Thirty-Year (LGB)	43,071	29,799	34,499	34,499

Additionally, these bonds are highly liquid. As of 2012, the average monthly trading volume of bonds eligible for each of the contracts is approximately:

Two-Year (CGZ)	3,190
Five-Year (CGF)	12,450

[1] *See* Attachment 25, Montréal Exchange Circular 055-2012, List of Deliverable Canadian Government Bond Issues.

Ten-Year (CGB)	775,968
Thirty-Year (LGB)	0

Finally, there is an established pattern of convergence between the price of the futures contracts and the price of the underlying bonds as the expiration of the relevant contract period approaches.

The deep, liquid market for Government of Canada bonds has adequately supported the market for futures on those bonds since the inception of the CGB contract. Since then, the market has been sufficient to support the addition of the three newer futures contracts.

All contracts are settled through CDCC, which ensures a smooth process of delivery.

II. Cash-Settled Futures

Five of the contracts to be offered for trading through direct access are cash-settled futures: Three-Month Canadian Bank Acceptance Futures (BAX), 30-Day Overnight Repo Rate Futures (ONX), Overnight Index Swap Futures (OIS), S&P/TSX 60 Index Standard Futures (SXF), and S&P/TSX 60 Index Mini Futures (SXM). These contracts are not readily susceptible to manipulation given the independence and trustworthiness of the entities who calculate the indices or values, and the methodologies used to calculate the values, upon which the final settlement price is based. These data are commercially acceptable, widely available, and timely.

A. Three-Month Canadian Bank Acceptance Futures (BAX)

BAX are quoted on an index basis: 100 minus the annualized yield of three-month Canadaian bankers' acceptances. The final settlement price is based on an average of three-month Canadian bankers' acceptance bid rates, the Canadian Dealer Offered Rate (CDOR). CDOR is determined daily through a survey of nine market makers in bankers' acceptances: BMO Nesbitt Burns, CIBC World Markets, Deutsche Bank, HSBC Bank Canada, Merrill Lynch Canada, National Bank Financial, RBC Dominion Securities, Scotia Capital Inc., and TD Securities Inc. The high and low rates are removed, and a simple arithmetic average is calculated for the remaining survey rates. High and low bid prices are excluded to minimize bias in the results. CDOR is calculated on an annual basis for a 365-day year. The survey is conducted at 10:00 a.m. each business day, and the result is posted on the CDOR page of the Reuters' Monitor Service by 10:15 am the same day. Responsibility for CDOR is assumed by the Investment Industry Regulatory Organization of Canada (IIROC), the self-regulatory organization with granted registration and oversight authority for Canadian dealers.

B. 30-Day Overnight Repo Rate Futures (ONX)

ONX is cash settled against the monthly average of the daily Canadian overnight repo rate (CORRA) for the contract month. CORRA is calculated and reported by the Bank of Canada, as a weighted average of the rates to which the typical repo transactions are traded by dealers on the screens of the following interdealer brokers: Cantor Fitzgerald Co., Freedom International Brokers, Prebon Yamane (Canada) Ltd., Shorcan Brokers Ltd. and Tullet & Tokyo

Forex (Canada). The monthly average is a simple arithmetic average corresponding to the sum of the daily overnight repo rates divided by the number of calendar days in the month. Weekend and holiday rates are considered to be the rate applicable on the previous business day for which a rate was reported.

C. Overnight Index Swap Futures (OIS)

The final settlement price of the OIS futures contract is the overnight repo rate (CORRA) compounded daily over the period of the OIS futures contract that begins the day following the last Bank of Canada's Fixed Announcement Date to the day of the next Fixed Announcement Date. OIS are quoted on an index basis. As described in Exhibit E-1, the index is set at 100 – R, where R = the compounded daily overnight repo rate for the contract month, calculated according to the following formula:

$$R = \left[\prod_{i=1}^{d_0}\left(1 + \frac{ORR_i \times n_i}{365}\right) - 1\right] \times \frac{365}{d} \times 100$$

Where: "d_0" = the number of Business Days in the calculation period; "*i*" is a series of whole numbers from one to d_0, each representing the relevant Business Day in chronological order, and including the first Business Day in the relevant calculation period; "ORR_i" = the overnight repo rate on the i^{th} day of the calculation period (and if the i^{th} day is not a business day, the previous available CORRA is used); "n_i" = the number of calendar days in the relevant calculation period on which the rate is ORR_i; and "*d*" is the number of calendar days in the relevant calculation period.

In this calculation, the key variable is CORRA, which is calculated by Bank of Canada. The final settlement price depends, then, on calculations by a reliable, independent third-party that is not susceptible to manipulation.

D. S&P/TSX 60 Index Standard (SXF) and Mini (SXM) Futures

The S&P/TSX 60 is the index underlying both the SXF and SXM contracts. The number of constituents, aggregate capitalization, and liquidity of the securities comprising the index creates significant obstacles to manipulation. In this regard, as of February 29, 2012, the average daily trading volume for the 6- month period from September 1, 2011 to February 29, 2012 for the Index is over CAD $5.48 billion (approximately USD $5.41 billion) and market capitalization of the stocks comprising the Index is over C$1,104,377,477,602 (approximately US$1,089,811,062,935).

Price changes in the index are based on substantial trading volume. As a result, the ability of a single order or series of orders to effect a disproportionate price change in either the index or in an underlying stock is limited. The selection process also limits the susceptibility of the index and the contracts to manipulation through any underlying stock. The regulatory scheme, capitalization, liquidity and large number of component stocks in the index and the lack of excessive weighting of any single component stock afford significant protection against manipulation.

III. Options on Futures

Five of the contracts that will be offered for trading through direct access are options on futures contracts: Options on Three-Month Canadian Bankers' Acceptance Futures (OBW, OBX, OBY, OBZ) and Options on Ten-Year Government of Canada Bond Futures (OGB). The Commission has noted that, based on its experience with the oversight of trading in futures option contracts, the core terms and conditions of such contracts tend not to raise regulatory concerns with respect to susceptibility to manipulation.[2] The central requirement for these contracts is that the terms and conditions be specified in an automatic and objective manner in the contract's rules.[3] The terms and conditions of the five relevant contracts meet this requirement.[4]

IV. Cases of Manipulation

All disciplinary sanctions issued by the Montreal Exchange since 2001 are available on the Website of the Regulatory Division, at http://reg.m-x.ca/en/regulation/disciplinary. Below are details of investigations opened since January 1, 2009.[5]

A. 2009

A total of nine (9) investigations were started in 2009, five (5) of which were in connection with the Exchange futures contracts market. The other four (4) investigations were in connection with the Exchange equity options market and are not detailed here. The (5) futures cases involved trade practice violations. None involved market manipulation.

B. 2010

A total of eighteen (18) investigations were started in 2010, five (5) of which were in connection with the Exchange futures contracts market. The other thirteen (13) investigations were in connection with the Exchange equity options market and are not detailed here. Of the five (5) futures contracts investigations, one related to alleged market manipulation. The remaining investigations involved unauthorized trading or trade practice violations. The one investigation involving possible manipulative activity is summarized below:

File 10-006 – Opened March 16, 2010

A file was opened in connection with cross transactions executed by a client of an approved participant. These transactions had been executed during the last minutes of the trading session and were suspected of having not resulted in any change of beneficial ownership (wash trades), and also of having unduly influenced the end-of-day settlement price of the traded future contract (BAX).

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[2] *See* 75 Fed. Reg. 80634.
[3] *Id.*
[4] *See* Attachment 9, Contract Terms and Conditions; Attachment 14, Montréal Exchange Rules 6701-6758.
[5] To comply with Canadian privacy laws, names of persons and/or entities involved in these investigations are not disclosed. Information is provided only for cases involving futures contracts and options on futures contracts listed on the Montreal Exchange that are available for trading to its U.S. approved participants (i.e. those approved or permitted by the CFTC).

The investigation could not conclude that there was a trading pattern establishing a willingness to execute wash trades or to influence the daily settlement price. Flagged occurrences represented a negligible proportion of the client's trading activity and in a majority of instances he had flagged questionable transactions immediately and had asked for their cancellation. However, the investigation permitted the Exchange to identify some deficiencies in the monitoring made by the firm of its client trading activity, in the sense that the Exchange surveillance tool had triggered some alerts that warranted more in-depth investigation but the monitoring tool used by the approved participant had not flagged these occurrences.

The case was closed because of insufficient evidence of attempted manipulation. However, a warning letter was sent to the approved participant outlining monitoring procedures deficiencies and asking for corrections.

C. 2011

A total of nineteen (19) investigations were started in 2011, fourteen (14) of which were in connection with the Exchange futures contracts market. The other five (5) investigations were in connection with the Exchange equity options market and are not detailed here. The fourteen (14) futures contracts investigations involved trade practice violations, such as cross and pre-arranged trades, wash trades and similar types of violations. Two investigations were initiated relating to allegations of manipulation of market prices:

1. Files 11-004A and 11-004B – Opened April 20, 2011

This investigation was initiated following a complaint from a trader who alleged possible manipulation of the BAX future contract price in the market's pre-opening session in January 2011. This complaint mentioned traders possibly entering orders not resulting in any change in the beneficial or economical ownership, in order to influence the opening price.

A preliminary analysis had underlined multiple questionable orders submitted in the BAX pre-opening session in January and February 2011, submitted by two unrelated approved participants. The criteria used were the high number of order cancellations during that period and the high number of orders submitted which did not result in any change of beneficial or economical ownership.

The main objective of the investigation was to determine if the approved participants and/or their clients had engaged in transactions, intentionally or repeatedly and with the objective of unfairly influencing the market price of the BAX, in order to make a profit from such action.

The investigation demonstrated that there were a few occurrences where a transaction had resulted in no change of beneficial ownership, but in most of these instances the Exchange Market Operations Department had been contacted rapidly to cancel these transactions. These occurrences appeared to be accidental. On only one instance was there a case where the opening price was influenced, but the Exchange was unable to prove that this had been done intentionally.

The investigation also revealed that all the transactions investigated were executed by clients of the concerned approved participants and not by employees, and that the monitoring tools of the firms had not identified the occurrences. It was therefore concluded that the

supervision by the firms had not been adequate and a warning letter was sent to them requiring that they enhance their supervision so that occurrences of no change in beneficial ownership transactions be more efficiently detected and cancelled.

2. File 11-005 – Opened May 10, 2011

This investigation was initiated following a complaint forwarded by a market participant on behalf of a client. The client complained about the settlement price for the March 2011 CGB future contract (CGBH11) on the last trading day of that contract. The client was complaining that he was holding a substantial long position in the expiring contract and that the final settlement price had been improperly set at a level that significantly increased its cost of taking delivery of the underlying bond. It was the client's opinion that the price had been intentionally influenced by two (2) transactions executed within the last minute of the trading session. The client's assumption was that these two (2) transactions, each involving a very small volume, had been prearranged and executed with the purpose of influencing the final settlement price.

The investigation did not demonstrate that there was any wilful intent to influence the final settlement price. Orders had been placed in good faith in a very difficult and illiquid market and had resulted in executed transactions that, although showing some deviations from previous trading prices, were not unreasonably priced given existing market conditions. These transactions had effectively influenced the final settlement price but not in a significant manner and not in way that could warrant initiating sanctions.

Case closed without any further action.

D. 2012

A total of ten (10) investigations were initiated from January 1, 2012 to March 31, 2012. Nine (9) investigations are in connection with the Exchange equity options market. Only one (1) of them is in connection with the Exchange futures contracts market, and that case involved an allegation of the manipulation of the market price of the BAX futures contract. The futures contracts investigation details are as follows.

1. File 12-007 – Opened March 27, 2012

This investigation was opened following a complaint from an approved participant's trader that closing price manipulation was occurring in the BAX future contract.

Such manipulation would presumably have been made by a client who holds multiple accounts with various participants and uses these multiple accounts to hide his manipulative activities. The investigation, which is quite complex, is still in its early stage and as of the date of drafting this text, it is not yet possible to determine if there were effectively closing price manipulation as claimed in the complaint.