



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

www.iiac.ca

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M^e Alexandre Normandeau
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M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
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Québec, Québec G1V 5C1

Dear M^e Normandeau and M^e Lebel,

Re: Bourse de Montréal Inc. – Request for comments - Amendments to Article 6.206 of the Rules of Bourse de Montréal Inc. to modify the minimum volume threshold for block transactions on Three-Month Canadian Bankers’ Acceptance Futures (BAX)

The Investment Industry Association of Canada (the "IIAC") and its members would like to take this opportunity to express their views on the proposed amendments (the "Proposal") to the Rules (the "Rules") of Bourse de Montréal Inc. (the "Bourse") regarding amendments to Article 6.206 to modify the minimum volume threshold for block transactions on Three-Month Canadian Bankers’ Acceptance Futures ("BAX") as per Circular 008-21 (the "Circular") issued on January 22, 2021.

The IIAC is the national association representing the position of 112 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.

We remind the Bourse that this comment letter, in its entirety, can be published on the Bourse's website.

Proposed Amendments

As stated in the Circular:

Bourse de Montréal Inc. (the Bourse) hereby proposes to reintroduce a minimum volume threshold for block transactions on the Three-Month Canadian Bankers' Acceptance Futures (BAX) during the regular trading hours ("RTH"), such that the minimum volume threshold for the first four quarterly BAX contract months, as well as for the two nearest non-quarterly contract months (together, the "BAX Whites") be 4,000 contracts between 6:00 am and 4:30 pm ET. The Bourse considers that a well-functioning block transactions market is desirable for the growth of its products and wishes to ensure its offering is in line with the needs of market participants. The Bourse believes this proposed amendment will better serve the needs of market participants and facilitate greater market efficiency through improved execution quality.

Position of the Industry – 2020 Request for Comments – Circular 120-20

As per our letter dated August 25, 2020, the IIAC and its members did not oppose the Bourse's initial Proposal regarding minimum volume threshold for block transactions on Three-Month Canadian Bankers' Acceptance Futures (BAX), where the minimum volume threshold for "BAX Whites" was proposed to be set at 2,000 contracts.

We believe it is important to reiterate our industry's position on the initial Proposal:

We do, however, strongly believe that block transaction minimum volume thresholds – not just for BAX block transactions – should be reviewed periodically (either quarterly or annually). The Bourse should readjust its minimum block transaction volume thresholds when significant changes occur in market conditions.

Position of the Industry – As per the current Request for Comments – Circular 008-21

We understand that the Bourse's objectives with the current Proposal are to accommodate large order activity that would otherwise be negotiated away from the organized market; to facilitate greater market efficiency through improved execution quality and price certainty for large transactions; and to align the practices of the Bourse with international best practices of major electronic derivatives exchanges.

The IIAC and its members do not believe that an increase in the minimum volume threshold, from 2,000 contracts to 4,000 contracts, would improve execution quality. We believe an increase to 4,000 contracts would instead exacerbate market volatility. Furthermore, we believe the comparative analysis performed with global marketplaces does not reflect the differences in the much smaller Canadian market where the Bourse operates.

The 2,000-contract minimum volume threshold is sufficiently high as per the Bourse's analysis, due to the current spread size. We recommend that at this stage, the threshold proposed for BAX Whites remain at 2,000 contracts.

Determining minimum volume threshold

The IIAC and its members believe that regardless of what the Bourse and the trading community decide is appropriate at present, any changes to minimum volume threshold need to incorporate the following:

1. **Transparency:** industry participants must understand how minimum volume thresholds are calculated and set.
2. **Periodic review:** the Bourse should commit to revisiting the minimum volume thresholds on a periodic basis, whether quarterly, semi-annually, or annually (but no longer than annually). The Bourse should also revisit the calculation method every few years.
3. **Rounding up, when in doubt:** block trades bring convenience to large customers and their executing brokers, as well as minimize price disruption for them. However, they also discourage market interaction and can create a bifurcated market between retail and institutional traders, in which market quality eventually suffers.

Equity, ETF and Currency Options – Minimum volume threshold – Article 6.205

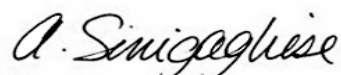
The IIAC and its members believe that the equity, ETF, and currency options' minimum volume thresholds should also be reviewed.

The Bourse's rule that declared 100-contracts as the prearranged transaction size (similar to a block transaction) for all equity, ETF, and currency options, needs to be re-visited. Although it seemed like a reasonable compromise at the time it was implemented many years ago, it has unfortunately not adapted to current market conditions.

For example, a 100-contract prearranged transaction is deemed inappropriate by market participants for certain products, such as the iShares S&P/TSX 60 Index ETF Option (XIU), yet that number remains. Our suggestions recognize the desires of large customers, and the financial institutions that service them, to avoid interacting with the market on large orders. We also hope to avoid extending this problematic situation in equity, ETF, and currency options, to interest rate derivatives.

Please note that the IIAC and its members, as always, remain available for further consultations.

Yours sincerely,



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