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CIRCULAR
October 7, 2004

REQUEST FOR COMMENTS

TWO-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT

CHANGES TO THE MINIMUM PRICE FLUCTUATION UNIT AND TO THE DELIVERY STANDARDS

AMENDMENTS TO ARTICLES 6807, 15606 AND 15613 OF THE RULES OF BOURSE DE MONTRÉAL INC.

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) approved amendments to articles 6807 and 15606 of the Rules of the Bourse relative to the minimum price fluctuation unit and amendments to article 15613 relative to the delivery standards of the Two-Year Government of Canada Bond Futures Contract (CGZ).

The purpose of these proposed modifications is to reduce the minimum price fluctuation unit for the CGZ contract and to enlarge the basket of deliverable bonds of the same contract.

Process for Changes to the Rules

The Bourse is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its capacity as an exchange, the Bourse takes on responsibilities as a market regulator.

The Board of Directors of the Bourse has the power to approve the adoption or amendment of various Rules and Policies of the Bourse. The Board of Directors has delegated its powers of approval of Rules and Policies to the Rules and Policies Committee. The changes are submitted to the Autorité for approval.

Circular no : 131-2004

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Comments on the proposed amendments to articles 6807, 15606 and 15613 must be submitted within 30 days following the date of publication of this notice in the bulletin of the Autorité. Please submit your comments to:

*Ms. Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca*

A copy of these comments shall also be forwarded to the Autorité to:

*Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
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 document of the proposed rule amendments, the proposed regulatory text as well as the CGZ specifications. The implementation date of the proposed amendments will be determined following approval by the Autorité des marchés financiers.



**2-YEAR GOVERNMENT OF CANADA
BOND FUTURES CONTRACT-
PROPOSED CHANGES TO THE
MINIMUM PRICE FLUCTUATION UNIT
AND TO THE DELIVERY STANDARDS**

A -- Proposed Amendments to the Rules

Amendments to articles 6807 and 15606 relative to the minimum price fluctuation unit and amendments to article 15613 of the Rules of the Bourse relative to the delivery standards of the 2-year Government of Canada bond futures contract (CGZ). If approved prior to the start of the roll of the December 2004 CGZ contract, the Bourse intends to make the change effective starting with the March 2005 CGZ futures contract month.

B -- Rationale

Following consultations with CGZ market participants, the Bourse has been asked to evaluate the possibility of reducing the minimum price fluctuation unit for the CGZ contract from 0.01 (equivalent to \$10 per contract) to \$0.005 (equivalent to \$5 per contract). For example, with a minimum price fluctuation unit of \$0.005, the CGZ could be priced at 104.705. Whereas, with a minimum price fluctuation of \$0.01, the CGZ could be priced at either 104.70 or 104.71.

In addition, market participants have requested the Bourse to permit the inclusion of 10-year Government of Canada bonds in the basket of deliverable bonds of the CGZ futures contract.

C – Objectives

- The proposed amendments to articles 6807 and 15606 of the Rules of the Bourse that relate to the minimum price fluctuation of Government

of Canada bond futures have the following objectives with regard to the 2-year CGZ contract :

- i) conform to the practice of the underlying cash market and other international short-term bond futures contracts; and
- ii) provide market participants with the ability to price the CGZ contract with greater precision.

Articles 6807 and 15606 have been amended to establish the minimum price fluctuation unit at \$0.005 for all Bourse listed Government of Canada bond futures contracts. However, at this time, the Bourse is seeking to introduce the reduced minimum price fluctuation only for the CGZ contract.

For illustrative purposes, the following table highlights the different minimum price fluctuation units of short-term bond futures contracts on international futures exchanges that are the equivalent of the CGZ :

Bond Futures Contract	Exchange	Half-Tick Pricing
CGZ	Bourse de Montréal	no
2-yr SCHATZ	EUREX	yes
2-yr U.S. T-NOTE	CBOT	yes

- The objective of the proposed amendment to article 15613 of the Rules of the Bourse relative to the delivery standards of the CGZ contract is to enlarge the basket of deliverable bonds for the CGZ by permitting Government of Canada bonds originally issued at 10 year auctions to be eligible for inclusion provided they meet the contract requirements of a remaining time to maturity of between 1 year 6 months and 2 years 6 months and an outstanding nominal amount of 3.5 billion dollars such as defined by the rule. Current rule 15613 already recognizes the eligibility of Government of Canada bonds issued at 5 year auctions.

For illustrative purposes, the following table lists the basket of deliverable bonds for the CGZ bond futures contract comprised of 2 year, 5 year and 10 year Government of Canada bonds that meet the new delivery standards :

Government of Canada Bonds			CGZ Futures Contract Month			
Coupon	Maturity	Issue Type	march05	june05	sept05	dec05
5 1/2%	sept06	5year	936			
7%	dec06	10year	587	587		
3 1/2%	dec06	2year	60	60		
7 1/2%	june07	10year	737	737	737	737
X%	june07	2year	55	55	55	55
4 1/2%	sept07	5year	104	104	104	104
X%	dec07	2year			35	75
6%	june08	10year				651
Total Outstanding (C\$ bln)			4450	3514	2677	3728

denotes deepest October bond issue

By enlarging the basket of deliverables to include 10 year Government of Canada bonds, the Bourse is offering a bond futures contract similar to EUREX's 2-year Schatz whose basket of deliverables includes 2, 5 and 10 year government bonds.

D – Impact of the Proposed Rule

The proposed amendments will provide market participants with a CGZ bond futures contract that better responds to their needs as it will allow greater precision in pricing the CGZ contract in addition to providing a larger basket of deliverables.

E -- Public Interest

The proposal is designed to make it more efficient for customers to use the CGZ bond futures contract.

F -- Process

The Bourse consulted its participants and discussions were held as part of the Bourse's on-going consultation process to improve its product line.

The participants consulted belong to the following groups:

1. clearing member firms holding positions in the CGZ;
2. market makers; and
3. key end users.

The result showed that out of 14 participants:

1. 11 were in favour of reducing the minimum price fluctuation of the CGZ to \$0.005; and
2. 10 were in favour of including 10 year Government of Canada bonds in the CGZ basket of deliverables.

The Rules and Policies Committee of the Bourse approved the amendments to articles 6807, 15606 and 15613 of the Rules of the Bourse.

G – References:

- Rule Six of the Bourse: article 6807.
- Rule Fifteen of the Bourse: articles 15606 and 15613.
- Revised contract specifications for the CGZ bond futures contract.

6807 Price Fluctuations

(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 29.04.02, 14.06.02, 15.10.02, 03.05.04, 00.00.04)

Unless otherwise determined by the Bourse, minimum price fluctuations shall be as follows:

- | | | |
|--|---------------------------------------|--|
| a) | 30-day overnight
repo rate futures | 0.005 per \$100 nominal
value |
| b) 1-month and 3-month Canadian Bankers' acceptance futures | | |
| i) For the nearest contract month(s), as determined by the Bourse, 0.005 per \$100 nominal value. | | |
| ii) For all contract months excluding the nearest contract month(s) as determined by sub-paragraph i), 0.01 per \$100 nominal value. | | |
| c) Government of
Canada Bond futures
Contracts | | |
| | | 0. 0 <u>005</u> per \$100 nominal
value |
| d) Futures contract on the
S&P/TSX 60
Stock Index | | |
| | | 0.05 index point
equivalent to
CDN \$10 per contract |
| e) Canadian share
futures contract | | |
| | | A minimum of \$0.01
CDN per Canadian share |
| f) International share
futures contracts | | |
| | | At a minimum of the
corresponding unit of fluctuation used by
the market on which the underlying stock is traded |
| g) Futures contracts
on S&P/TSX sectorial
stock indices | | |
| | | 0.01 index point |

15606 Minimum Price Fluctuation Unit
(08.09.89)

Price fluctuation units shall be in minimum multiples of 0.~~04~~005 per contract. For each 0.~~04~~005 increase in the price, the clearing house shall credit \$~~105~~ per contract those members holding open long positions and debit \$~~105~~ per contract those members holding short positions. For each 0.~~04~~005 decrease in the price, the clearing house shall debit \$~~105~~ per contract those members holding open long positions and credit \$~~105~~ per contract those members holding short positions.

15613 Delivery Standards

(08.09.89, 20.11.89, 05.03.90, 01.07.92, 01.10.92, 12.07.94, 19.01.95, 05.08.97, 06.11.97, 22.12.99, 03.05.04)

- a) For the 10-year Government of Canada Bond Futures contract shall be deliverable only those Government of Canada bond issues which:
- i) have a remaining maturity of between 8 and 10½ years, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete period of three months, by rounding down to the nearest entire three-month period, e.g. 10 years and seven months shall be considered 10½ years from the first day of the delivery month);
 - ii) have an outstanding amount of \$3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);
 - iii) are originally issued at 10-year auctions (a bond not issued at a 10-year auction which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of \$3.5 billion);
 - iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;
 - v) have a face value at maturity in multiples of CAN \$100,000; and
 - vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.
- b) For the 5-year Government of Canada Bond Futures contract, shall be deliverable only those Government of Canada bond issues which:
- i) have a remaining maturity of between 3 years 6 months and 5 years 3 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 4 years 5

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- months and 14 days shall be considered 4 years and 5 months from the first day of the delivery month);
- ii) have an outstanding amount of \$3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);
 - iii) have an original maturity of not more than 5 years and 9 months (an issue which has an original maturity of more than 5 years and 9 months and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of \$3.5 billion, or if it was deliverable in the 10-year Government of Canada Bond Futures contract);
 - iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;
 - v) have a face value at maturity in multiples of CAN \$100,000; and
 - vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.
- c) For the 2-year Government of Canada Bond Futures contract, shall be deliverable only those Government of Canada bond issues which:
- i) have a remaining maturity of between 1 year 6 months and 2 years 6 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 2 years 1 month and 14 days shall be considered 2 years and 1 month from the first day of the delivery month);
 - ii) have an outstanding amount of \$3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);
 - iii) are originally issued at 2year, ~~or~~ 5 year or 10-year Government of Canada bond auctions (a bond which has not been originally issued at a 2-year, ~~or~~ 5 year or 10-year Government of Canada bond auction and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of \$3.5 billion);

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- iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;
 - v) have a face value at maturity in multiples of CAN \$100,000; and
 - vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.
- d) The price of a deliverable Government of Canada Bond shall be determined according to the conversion factors tables published by the Bourse.

The conversion factor of a deliverable issue is the actualized value of the deliverable issue to the notional yield of the futures contract considered on the first day of the delivery month, minus the interest accrued until delivery day.

- e) The amount to be paid at delivery is equal to \$1,000 multiplied by the conversion factor of the deliverable issue and multiplied by the settlement price of the futures contract being delivered, plus accrued interests to the delivery day. Accrued interest is charged to the approved participant taking delivery.
- f) All Government of Canada Bonds being delivered in respect of a futures contract must be of the same issue.
- g) Before a contract is listed for trading, the Bourse shall have the right to exclude any deliverable Government of Canada bond issue, even if it meets all the standards specified in this Rule.

Two-Year Government of Canada Bond Futures

Specifications

Trading Unit	C\$100,000 nominal value Government of Canada Bond with 6% notional coupon
Contract Months	March, June, September and December.
Price Quotation	Par is on the basis of 100 points, with one point equal to C\$1,000.
Last Trading Day	Trading ceases at 1:00 p.m. (ET) on the seventh business day preceding the last business day of the delivery month.
Contract Type	Physical delivery of eligible Government of Canada Bonds.
Delivery Notices	Delivery notices should be submitted before 5:30 p.m. or before such time set by the clearing corporation on any business day, between the second business day preceding the first business day of the delivery month, and the second business day preceding the last business day of the delivery month inclusively.
Delivery Date	Delivery shall be made on the second business day following the submission of the delivery notice by the member holding a seller's position or on any other day as determined by the clearing corporation. Delivery shall be completed no later than the last business day of the delivery month.
Minimum Price Fluctuation	0.01-005 = C\$40.5 per contract.
Reporting Level	250 contracts.
Position Limits	Information on position limits can be obtained from Bourse de Montréal Inc. as they are subject to periodic changes.
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodic changes.
Delivery Standards	Government of Canada Bonds which: <ul style="list-style-type: none"> i) have a remaining time to maturity of between 1 year 6 months and 2 years 6 months as of the first day of the delivery month, calculated by rounding down to the nearest whole month period; ii) have an outstanding amount of at least C\$3.5 billion nominal value; iii) are originally issued at two-year, or five-year <u>or ten-year</u> Government of Canada bond auctions; iv) are issued and delivered on or before the 15th day preceding the first delivery notice day month of the contract.
Daily Price Limit	Three points (C\$3,000) per contract above or below the previous day's settlement price.
Trading Hours	<ul style="list-style-type: none"> • Early session: 6:00 a.m. to 8:05 a.m. (ET) • Regular session: 8:20 a.m. to 3:00 p.m. (ET). • Curb trading session: The curb trading session begins once settlement prices have been determined and ends at 4:00 p.m. (ET)
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	CGZ