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CIRCULAR 026-18

February 12, 2018

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE EXPIRY TIME OF BAX FUTURES AND OPTIONS CONTRACTS

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to articles 6757, 6763.9, 6764.9, 6765.9 and 15512 of the Rules of the Bourse in order to update the rules related to the Three-Month Canadian Bankers’ Acceptance futures and options contracts expiry times, to align such products with their respective underlying markets.

Comments on the proposed amendments must be submitted on March 14, 2018 at the latest. Please submit your comments to:

M^c Alexandre Normandeau
Legal Counsel, Montréal Exchange & CDCC
Office of the General Counsel
Bourse de Montréal Inc.
Tour de la Bourse
800 Victoria Square, P.O. Box 61
Montréal, Québec H4Z 1A9
Email: legal@tmx.ca

A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^c Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

Regulatory Amendment Process

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization ("SRO") by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).



**AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE EXPIRY TIME OF
BAX FUTURES AND OPTIONS CONTRACTS**

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I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) hereby proposes to update its Rules related to the Three-Month Canadian Bankers’ Acceptance futures and options contracts expiry times, to align such products with their respective underlying markets. In light of the recent developments in the Canadian Dollar Offered Rate (“CDOR”) determination methodology and recent extension of the Bourse’s trading hours from 4:00 pm to 4:30 pm, the current expiry times of BAX futures and options contracts are no longer optimal considering the use made by market participants. Consequently, the Bourse proposes to amend the contract expiry time on the expiry day from 10:00 am to 10:15 am for the Three-Month Canadian Bankers’ Acceptance futures (“BAX”) and regular options on Three-Month Canadian Bankers’ Acceptance futures (“OBX”), and from 4:00 pm to 4:30 pm for serial, one-year and two-year mid-curve options on Three-Month Canadian Bankers’ Acceptance futures (“OBW”, “OBY” and “OBZ”). The Bourse believes that the proposed amendments will better serve the needs of market participants by enabling a more accurate expiry process.

II. ANALYSIS

a. Background

The CDOR represents the reference rate for bankers’ acceptance borrowings and is the result of a survey conducted between a predefined number of Submitters (contributors) who divulge at what rate they are willing to lend funds. CDOR is determined by the arithmetic average of the rate submissions, excluding the highest and lowest submitted rates.¹

Currently, on expiry day², the BAX contract ceases trading at 10:00 am. This 10:00 am expiry time was set because the BAX contract’s underlying, the three-month CDOR, was previously determined using a survey conducted by Thomson Reuters at 10:00 am on each business day³. Therefore, the CDOR was representative of market conditions at that specific time. However, since Thomson Reuters was officially appointed as the administrator of the CDOR in Canada, a lot of work has been done to strengthen this key Canadian benchmark rate, including a reform of its determination methodology. As a result, a new methodology document has been published on Thomson Reuters’ website⁴. This document mentions that CDOR contributors now have until 10:14:59 am (as opposed to 10:00 am) to report their submission for the CDOR calculation. The Bourse has consequently received requests from market participants to extend the expiry time for BAX contracts from 10:00 am to 10:15 am, to align it with the end of the

¹ Thomson Reuters. *Methodology, Canadian Dollar Offered Rate (CDOR)* [Online] available at: <https://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/cdor-methodology.pdf> [Accessed Dec. 2017, last updated Jan. 8 2018]

² Second banking day preceding the third Wednesday of the contract month, provided it is a business day. If it is not a business day, trading will cease on the first preceding business day.

³ IIROC. *IIROC review of CDOR supervisory practices* [Online] available at: <https://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=06EE8BF666F54D4B9D63ECFD7335E24E&Language=en> [Accessed Dec. 2017]

⁴ Supra note 1

CDOR rate submission window. Note that the CDOR publication time has not changed and remains at 10:15 am.

Similarly, OBX contracts (regular BAX options) and their underlying BAX futures currently expire simultaneously at 10:00 am on the expiry day. Therefore, a change to the BAX contracts' expiry time also implies a change in the OBX contracts' expiry time, in order to keep a consistent expiry process between these products.

For mid-curve options⁵ OBW, OBY and OBZ, the current product specifications are not aligned with the amendment of the Bourse's trading hours for BAX futures and options that took place in April 2017 (close of trading moved from 4:00 pm to 4:30 pm)⁶. Therefore, on the mid-curve options expiry day, market participants currently experience a 30 minute gap between the expiry time of mid-curve options and the close of trading of their underlying BAX contract. The proposed modifications aim at harmonizing the mid-curve options expiry time with the Bourse's trading hours. This amendment is similar to the modification proposed in March 2016⁷ when the Bourse decided to align the mid-curve options expiry times with their underlying BAX futures close of trading, which was 4:00 pm at that time.

Given the rising interest rate market environment both in the US and in Canada promoting growth potential in products such as BAX futures and options, it is important to have an accurate expiry process in order to maintain a healthy functioning market in these products.

b. Description and Analysis of Market Impacts

The Bourse proposes to amend the expiry times of its BAX futures and options contracts on the expiry day. Specifically, the proposed amendments are as follows:

- On expiry day, extend BAX contract and regular options on BAX expiry time from 10:00 am to 10:15 am;
- On expiry day, extend mid-curve options on BAX expiry time from 4:00 pm to 4:30 pm.

Extending the expiry times for BAX futures and options would allow market participants to trade for an additional period of time on the expiry day. This would better suit the needs of participants as it would provide a better hedge of the underlying instrument.

The current gap observable between the expiration time of the BAX futures and options and the closing time of their respective underlying is considered negligible in most cases, but events creating material disparity between the final settlement of BAX futures and options and their underlying market could arise within this short window of time on any expiry day. BAX effectiveness in hedging CDOR rate could be impacted if BAX expiration time is not synchronized with its underlying. The Bourse believes the proposed amendment will improve the

⁵ Short-dated options on long-dated futures. Given their specifications, a mid-curve option and its underlying BAX contract do not expire simultaneously (their expiry day is not the same).

⁶ https://www.m-x.ca/f_circulaires_en/021-17_en.pdf

⁷ https://www.m-x.ca/f_circulaires_en/031-16_en.pdf

effectiveness of its flagship BAX contract, and render a more efficient expiration process between the BAX and its regular and mid-curve options. This altogether should strengthen the functioning of the Canadian derivatives market and better serve the interests of market participants.

The Bourse has not identified any impediments, whether technical, operational or other, to the implementation of the proposed amendments. Given the benefits to market participants and the absence of impediments, the Bourse is proposing an alignment of the BAX expiry time on its underlying benchmark rate submission cut-off time, and simultaneously an alignment of regular and mid-curve options expiry times with the close of trading of their respective underlying BAX futures contract.

c. Comparative Analysis

Having short-term interest rate (“STIR”) futures contracts expire in line with their underlying benchmark rate submission cut-off time is a market practice observed at other exchanges. An overview of the main comparable contracts at international derivatives exchanges is provided in table 1 below:

Table 1: STIR futures expiry times versus their underlying benchmark submission cut-off time

STIR futures (exchange) and expiry time on last trading day*	Underlying benchmark (administrator) and submission cut-off time (represent market view as of)**	Underlying benchmark publication time**	**Sources
Eurodollar (CME) 11:00 AM (London Time)	3M Libor (IBA) 11:00 AM (London Time)	11:55 AM (London Time)	https://www.theice.com/publicdocs/IBA_Additional_Consultation_Feedback_Statement.pdf
Euribor (ICE) 10:00 AM (London Time)	3M Euribor (EMMI) 10:00 AM (London Time)	10:00 AM (London Time)	https://www.emmi-benchmarks.eu/assets/files/Euribor_tech_features.pdf
Short Sterling (ICE) 11:00 AM. (London Time)	3M Short Sterling (IBA) 11:00 AM (London Time)	11:55 AM (London Time)	https://www.theice.com/publicdocs/IBA_Additional_Consultation_Feedback_Statement.pdf
Euribor (Eurex) 11:00 AM (CET)	3M Euribor (EMMI) 11:00 AM (CET)	11:00 AM (CET)	https://www.emmi-benchmarks.eu/assets/files/Euribor_tech_features.pdf
BAX (MX) 10:00 AM (ET)	3M CDOR (TR) 10:14:59 AM (ET)	10:15 AM (ET)	https://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/cdor-methodology.pdf

*Sources: Contract specifications on exchange websites

As seen above, the expiry times of STIR futures contracts coincide with the submission cut-off time of their underlying benchmark rates. This was the case for the BAX contract as well prior to the enforcement of the new CDOR determination methodology, which now enables contributors to send their submission at up to 10:14:59 am. The proposed amendments aim at realigning the BAX contract expiry time with the end of this new submission window.

For options on STIR futures contract, the following table presents an international comparison of the expiry times for regular and mid-curve options contracts.

Table 2: Regular and mid-curve options expiry times versus their underlying STIR futures close of trading on the options last trading day.

STIR regular options (exchanges) and expiry time on last trading day*	STIR futures (exchanges) and expiry time on last trading day	STIR mid-curve options (exchanges) and expiry time on last trading day*	STIR futures (exchanges) and close of trading on a regular trading day*
Eurodollar options (CME) 11:00 AM (London Time)	Eurodollar (CME) 11:00 AM (London Time)	Eurodollar mid-curves options (CME) Close of trading (4:00 PM CT)	Eurodollar (CME) 4:00 PM (CT)
Euribor options (ICE) 10:00 AM (London Time)	Euribor (ICE) 10:00 AM (London Time)	Euribor mid-curves options (ICE) 4:15 PM (London Time)	Euribor (ICE) 9:00 PM (London Time)
Short Sterling options (ICE) 11:00 AM (London Time)	Short Sterling (ICE) 11:00 AM (London Time)	Short Sterling mid-curves options (ICE) 4:15 PM (London Time)	Short Sterling (ICE) 6:00 PM (London Time)
Euribor options (Eurex) 11:00 AM (CET)	Euribor (Eurex) 11:00 AM (CET)	Euribor mid-curves options (Eurex) 5:15 PM (CET)	Euribor (Eurex) 7:00 PM (CET)
BAX options (MX) 10:00 AM (ET)	BAX (MX) 10:00 AM (ET)	BAX mid-curves options (MX) 4:00 PM (ET)	BAX (MX) 4:30 PM (ET)

*Sources: Contract specifications on exchange website

From the first two columns of Table 2, we can see that the expiry time of STIR regular options matches their underlying futures expiry time on the last trading day. The proposed amendments aim at preserving this relationship between the BAX and OBX contracts.

For the STIR mid-curve options, the Bourse proposes to realign the expiry time for the OBY, OBW and OBZ on the last trading day with the close of trading of their associated BAX futures. This was the case prior to the extension of the Bourse trading day to 4:30 pm. Table 2 shows that the same alignment is done at CME for mid-curve options and their related Eurodollar futures. Some exchanges (ICE and Eurex) have decided to set their STIR mid-curve options expiry time prior to the close of their underlying futures contract trading day, in order to match the daily settlement price calculation period. The Bourse believes that for physically delivered contracts (like mid-curve options), it is preferable to have the expiry time aligned with the close of the corresponding futures trading day, to give participants additional time to manage their Canadian STIR exposure on the expiry day.

d. Proposed Amendments

The Bourse proposes to amend articles 15512, 6757, 6763.9, 6764.9 and 6765.9 of the Rules of the Bourse - see attached proposed rule changes.

III. AMENDMENT PROCESS

The drafting process was initiated by the need to enhance the efficiency of the BAX futures and options and to offer hedging tools that meet market participants' needs.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed changes should have no impact on the technological systems of the Bourse, its Regulatory Division, its approved participants, independent software vendors, or any other market participants.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS

The objective of the proposed amendments is to increase the effectiveness of the BAX futures and options contracts, by aligning their expiry times with that of their respective underlying markets. This means aligning BAX futures expiry time with the close of the CDOR survey submission range, subsequently the OBX contract with the new expiry time of the BAX futures and finally the OBY, OBW and OBZ contracts' expiry time with their respective BAX futures close of trading.

VI. PUBLIC INTEREST

The Bourse considers these amendments to be in the interest of the public as they will allow for better hedging practices for market participants. These amendments were initiated as a result of demands from market participants. Having the expiry times of BAX futures and options aligned with their underlying markets is beneficial for market participants looking to hedge their positions throughout the day.

VII. EFFICIENCY

By having the expiry times of BAX futures and option contracts aligned with their underlying markets, the proposed amendments will render a more accurate expiration process, increasing the efficiency of trading these products. Given the recent changes in the BAX futures and options environment, a modification of the expiry time on expiry day in these contracts is required in order for them to continue fulfilling market participants' needs efficiently.

VIII. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the Autorité des marchés financiers, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

Proposed amendments to the Rules of the Bourse.

RULE SIX

TRADING

[...]

REGULAR OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6751 Application of Specific Rules
(07.04.94, 29.10.04, 18.01.16)

In addition to sections 6601-6610 and 6621-6639, regular options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6757 Last Trading Day
(07.04.94, 29.10.04, 18.01.16, 00.00.00)

Trading ceases at 10:1500 a.m. (Montréal time) on the second London (Great Britain) banking day prior to the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

SERIAL MID-CURVE OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6763 Application of Specific Rules
(18.01.16)

In addition to sections 6601-6610 and 6621-6639, Serial Mid-Curve options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6763.9 Last Trading Day
(18.01.16, 26.05.16, 00.00.00)

Trading ceases at 4:3000 p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

ONE-YEAR QUARTERLY MID-CURVE OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6764 Application of Specific Rules (18.01.16)

In addition to sections 6601-6610 and 6621-6639, One-year Quarterly Mid-Curve options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6764.9 Last Trading Day (18.01.16, 26.05.16, 00.00.00)

Trading ceases at 4:~~3000~~ p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

TWO-YEAR QUARTERLY MID-CURVE OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6765 Application of Specific Rules (18.01.16)

In addition to sections 6601-6610 and 6621-6639, Two-year Quarterly Mid-Curve options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6765.9 Last Trading Day (18.01.16, 26.05.16, 00.00.00)

Trading ceases at 4:~~3000~~ p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

RULE SIX

TRADING

[...]

REGULAR OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6751 Application of Specific Rules
(07.04.94, 29.10.04, 18.01.16)

In addition to sections 6601-6610 and 6621-6639, regular options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6757 Last Trading Day
(07.04.94, 29.10.04, 18.01.16, 00.00.00)

Trading ceases at 10:15 a.m. (Montréal time) on the second London (Great Britain) banking day prior to the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

SERIAL MID-CURVE OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6763 Application of Specific Rules
(18.01.16)

In addition to sections 6601-6610 and 6621-6639, Serial Mid-Curve options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6763.9 Last Trading Day
(18.01.16, 26.05.16, 00.00.00)

Trading ceases at 4:30 p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

ONE-YEAR QUARTERLY MID-CURVE OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6764 Application of Specific Rules
(18.01.16)

In addition to sections 6601-6610 and 6621-6639, One-year Quarterly Mid-Curve options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6764.9 Last Trading Day
(18.01.16, 26.05.16, 00.00.00)

Trading ceases at 4:30 p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

TWO-YEAR QUARTERLY MID-CURVE OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES

6765 Application of Specific Rules
(18.01.16)

In addition to sections 6601-6610 and 6621-6639, Two-year Quarterly Mid-Curve options on Three-month Canadian Bankers' Acceptance futures shall be subject to the regulation contained in this section.

[...]

6765.9 Last Trading Day
(18.01.16, 26.05.16, 00.00.00)

Trading ceases at 4:30 p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

[...]

**RULE FIFTEEN
FUTURES CONTRACTS SPECIFICATIONS**

[...]

CANADIAN BANKERS' ACCEPTANCE FUTURES

[...]

15512 Last Trading Day
(18.01.16, 00.00.00)

Trading of Canadian Bankers' Acceptance futures ceases at 10:~~1500~~ a.m.- (Montréal time) on the second London (Great Britain) banking day preceding the third Wednesday of the contract month.

If this day is not a business day for the Bourse or for the Montreal or Toronto banks, trading of Canadian Bankers' Acceptance futures ceases at 10:~~1500~~ a.m. (Montréal time) on the preceding business day.

[...]

**RULE FIFTEEN
FUTURES CONTRACTS SPECIFICATIONS**

[...]

CANADIAN BANKERS' ACCEPTANCE FUTURES

[...]

15512 Last Trading Day
(18.01.16, 00.00.00)

Trading of Canadian Bankers' Acceptance futures ceases at 10:15 a.m. (Montréal time) on the second London (Great Britain) banking day preceding the third Wednesday of the contract month.

If this day is not a business day for the Bourse or for the Montreal or Toronto banks, trading of Canadian Bankers' Acceptance futures ceases at 10:15 a.m. (Montréal time) on the preceding business day.