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CIRCULAR
March 20, 2008

REQUEST FOR COMMENTS

EXTENDED TRADING SESSION (« CURB SESSION ») AMENDMENTS TO ARTICLE 6367A OF RULE SIX OF BOURSE DE MONTRÉAL INC.

AND INCLUSION OF THE OPTION ON THREE-MONTH CANADIAN BANKERS, ACCEPTANCE FUTURES CONTRACT (OBX) IN THE INTEREST RATE DERIVATIVE INSTRUMENTS THAT ARE ELIGIBLE TO BE TRADED DURING THE EXTENDED TRADING SESSION

Summary

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to article 6367A of Rule Six of the Bourse. The purpose of these amendments is to allow the Bourse to offer to market participants an extended trading session without any price range restrictions. The removal of this price range restriction will reflect more realistic market conditions that will enable market participants to accurately hedge cash and derivative instruments positions after the close of the regular session.

Process for Changes to the Rules

Bourse de Montréal Inc. 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 SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

Circular no.: 045-2008

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules and Policies of the Bourse governing approved participants, among which, the Rules and Policies relating to margin and capital requirements. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules and Policies with recommendation from the Special Committee. These changes are submitted to the Autorité for approval.

Comments on the proposed amendments to article 6367A of Rule Six must be submitted within 30 days following the date of publication of the present 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 amended specifications. The implementation date of the proposed amendments will be determined, if applicable, with the other Canadian self-regulatory organizations following approval by the "Autorité des marchés financiers".



EXTENDED TRADING SESSION (“CURB SESSION”)

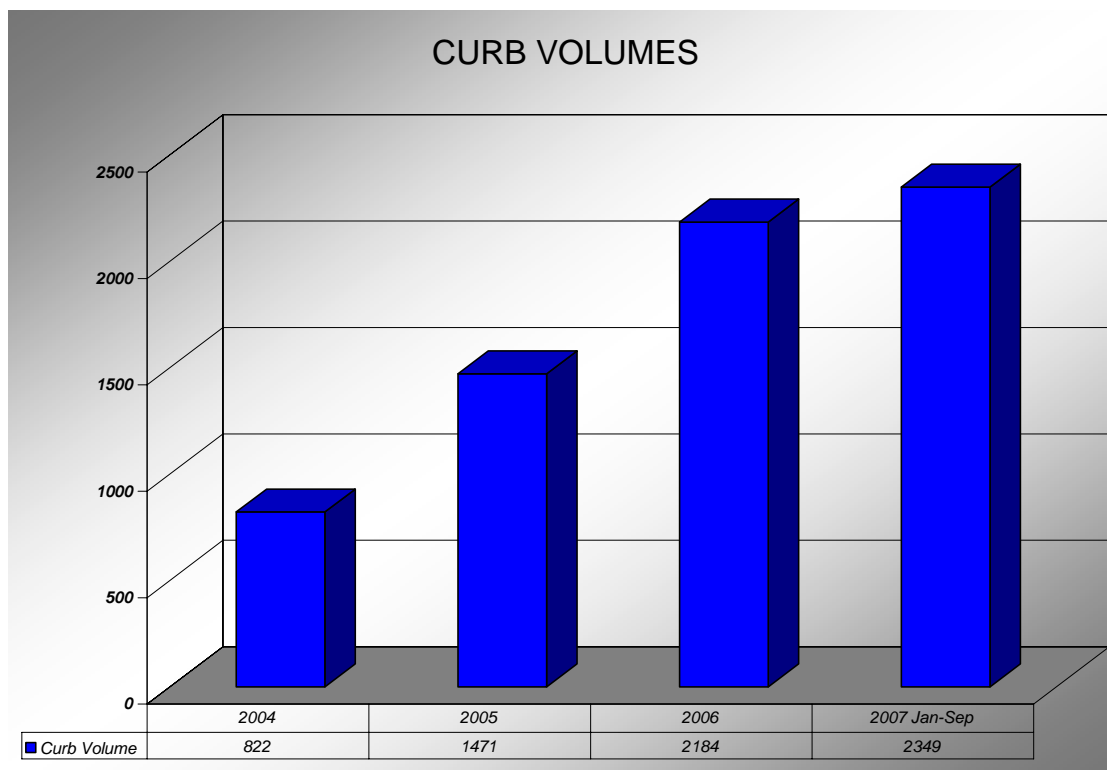
AMENDMENTS TO ARTICLE 6367A OF RULE SIX OF BOURSE DE MONTRÉAL INC. AND INCLUSION OF THE OPTION ON THREE-MONTH CANADIAN BANKERS’ ACCEPTANCE FUTURES CONTRACT (OBX) IN THE INTEREST RATE DERIVATIVE INSTRUMENTS THAT ARE ELIGIBLE TO BE TRADED DURING THE EXTENDED TRADING SESSION

1. OVERVIEW

A-- Introduction

Bourse de Montréal Inc. (the Bourse) interest rate futures extended trading session (“curb session”) volumes and dynamics have evolved since 2004. The increased use of interest rate futures, after the 3:00 p.m. settlement of the regular session indicates that the curb session is evolving into a more important trading session. Current contract specifications allow curb trading on all the Bourse’s listed interest rate derivative instruments, except for the option on Three-month Canadian Bankers’ Acceptance Futures Contract (OBX).

The Bourse currently restricts the trading price range for interest rate contracts during the curb session and this is limiting the potential growth and additional volumes that could be attained during this trading session.



Figures from January to December 2004 versus January to September 2007 demonstrate a 285% increase in curb session volume from 822 to 2,340 contracts per session. This increased volume indicates that there is a wider and more intensive use of the curb session even with trading range restrictions.

II. DETAILED ANALYSIS

The Bourse introduced the curb session during the open outcry era in an effort to enable independent traders (“locals”) to exit from existing positions entered into during the regular trading session. In order to reduce risk and overnight exposure liability to these traders, the Bourse and the Canadian Derivatives Clearing Corporation (the CDCC) developed a rule that limited the price range within which a transaction could be executed during the curb session. Pursuant to this pricing restriction, a curb session transaction must take place at a price that is between the high and low prices of the day or, if the future contract daily settlement price is set outside the high-low price range of the day, at such settlement price.

With the development and evolution of electronic trading and clearing platforms, management of overnight exposure liability and risk can now be accomplished in real time by CDCC. In reason of this evolution, the need to monitor and limit the trading range during a curb session is no longer justified.

A-- Rationale

In order to offer more trading opportunities to market participants and create more synergy between the derivative instruments and their underlying cash instruments after the 3:00 p.m. settlement, the Bourse proposes that the curb session trading range restrictions be modified to reflect today's more efficient and transparent markets.

The Bourse therefore proposes to amend article 6367A of Rule Six of the Bourse regarding its extended trading session so that the current trading range restrictions be eliminated and replaced by a more flexible approach. Eliminating the high and low trading range in the extended trading session will allow market participants to trade fixed income derivative products at fair market value reflecting market conditions. This extended trading session will offer more trading opportunities to users of interest rate futures contracts and enable traders to more efficiently hedge their cash and futures contracts positions during the extended trading session.

The Bourse considers that eliminating the current restrictions would contribute to create more liquidity during the extended trading session.

International practice

Many foreign exchanges are currently offering extended trading session facilities similar to what the Bourse is proposing.

For example, the Chicago Mercantile Exchange (CME) has extended trading hours and uses its Globex trading platform for trading after the posting of settlement prices from the regular trading session.

CME's Globex session runs from 5:00 p.m. to 4:00 p.m. (Central time - CT) the following trading day with the daily settlement price marker established at 4:00 p.m. (CT). The only exception to that schedule is on Friday where the market closes for the week-end at 1:30 p.m. (CT) to reopen at 9:05 a.m. (CT) on the following Monday. This means that other than the week-end closing and the one hour market halt at 4:00 p.m. (CT) from Monday to Thursday (to establish the daily settlement price), the market is continuously open.

The trading session that restarts at 5:00 p.m. (CT) after the 4:00 p.m. (CT) trading halt, is not a separate trading session. It is the same Globex session. New highs or lows can be established at any time during the extended trading hours.

Both the Sydney Futures Exchange (SFE) and the London International Financial Future Exchange (LIFFE) have an extended trading session that takes place after the close and the posting of the settlement prices from their regular session.

For example, the SFE extended trading session for the 90 Day Bank Bill Futures Contracts and options (similar to the Montreal BAX and OBX contracts starts at 5:08 p.m. and ends at 7:00 a.m.¹ (Sydney time). The daily settlement price marker is established when the regular day session closes at 4:30 p.m. (Sydney time). Highs and lows can be established at anytime during the extended session.

LIFFE's extended trading session starts at 1:00 a.m. and ends at 9:00 p.m. with the settlement price established at 4:15 p.m. (London time). Highs and lows can be established at anytime.

B – Proposed Amendments

The Bourse proposes to remove the last paragraph from Article 6367A which provides that *"a trade may not take place at a price which is outside of the high and low for the day, except for contracts which have been settled outside of their high-low range of the day, in which case, trades during the curb session may occur only at the settlement price."*

It is also proposed to modify the wording of the remaining text of this article so that the term "curb trading" be replaced by "extended trading" as already used by the major markets that were used for benchmarking purposes.

Finally, the Bourse proposes to amend the contract specifications of the option on Three-month Canadian Bankers' Acceptance Futures Contract (OBX) contract so that extended trading be permitted on this instrument as is the case for all other interest rate derivative instruments listed on the Bourse. The OBX contract is now traded on a regular basis and

¹ Trading ends at 7:00 a.m. when the U.S. territory is on daylight saving time. When not on daily saving time, extended trading still starts at 5:08 p.m. but ends at 7:30 p.m.

there is no justification why it should not be eligible to trade during extended hours while such trading is permitted for its underlying futures contract (Three-month Canadian Bankers' Acceptance Futures Contract – BAX). To include the OBX in the group of interest rate derivative instruments that are eligible to be traded during the extended trading session, it is necessary to amend the OBX contract specifications accordingly.

III. OBJECTIVE OF THE PROPOSED REGULATORY AMENDMENT AND CONSEQUENCES

A -- Objectives

The objectives of the proposed Rule amendment are:

- i) To replace the term “curb trading (session)”, which represents a restricted range trading session by “extended trading (session)” which will represent an unrestricted range trading session.
- ii) To allow market participants to transact at any price during an extended trading session that commences shortly after the posting of the daily settlement prices of the regular trading session.
- iii) To include the OBX contract in the interest rate derivative instruments that are eligible to be traded during the extended trading session.

B -- Consequences of the Proposed Amendment to the Rule

The proposed amendment will allow the Bourse to offer to market participants an extended trading session without any price range restrictions. The removal of this price range restriction will reflect more realistic market conditions that will enable market participants to accurately hedge cash and derivative instruments positions after the close of the regular session.

C - Other alternatives considered

No other alternatives were considered.

D - Impact of proposed amendments on systems

The Bourse considers that the regulatory amendments proposed in this analysis will have no impact on systems for approved participants, their approved persons, their clients or the public in general.

E - Interest of financial markets

The Bourse considers that the amendments proposed in this analysis will not affect the interests of financial markets. On the contrary, it will provide them with more flexibility for trading by allowing extended trading hours and eliminating pricing restrictions that are no longer justified. Also, as already mentioned, it will allow them to adjust more rapidly to changing market conditions and to manage their risk in a more efficient manner.

C – Public Interest

The proposed regulatory amendments have been developed in order to broaden the price trading range for derivative products during an extended trading session. As indicated, the present curb session regulations restrict approved participants from participating in any price movements of the underlying cash markets after the close of the regular trading session. The extended trading session would provide a more accessible and efficient facility for approved participants to properly offset at a fair market value any trading positions entered into during the regular trading session and would also enable the Bourse to increase both liquidity and trading volumes of its listed derivative instruments. The Bourse considers that the proposed amendments are of public interest.

IV. PROCESS

The first step of the approval process for the regulatory amendments proposed in this analysis is to have them approved by the Rules and Policies Committee. Once the approval obtained from this Committee, the proposed amendments, including this analysis will simultaneously published by the Bourse for a thirty (30) days comment period and submitted to the Autorité des marchés financiers for approval and to the Ontario Securities Commission for information.

V. SOURCES

- Article 6367A – Curb Trading - Rule Six of Bourse de Montréal
- Contract specifications - Option on Three-month Canadian Bankers' Acceptance Futures Contract (OBX)
- Chicago Mercantile Exchange (CME) – CME Commodity Products Extended Hours FAQ - May 25, 2007 - <http://www.cme.com/trading/files/24-hrFAQ.pdf>
- London International Financial Futures and Options Exchange (LIFFE) - Notice No. 2860 - March 14, 2007 - Three Month Euro (Euribor) Interest Rate Contract - Extension of Trading Hours - <http://www.euronext.com/fic/000/019/622/196223.pdf>
- Sydney Futures Exchange (SFE) – SFE Trading Hours - http://www.asx.com.au/investor/education/basics/trading_hours_sfe.htm

Telephone contact was also used at ASX/SFE directly to get the details: (0-11-61 2 9338 0000).

6367A ~~Curb~~ Extended Trading Session(06.01.03, 00.00.00)

Except on the expiry day of a contract, ~~curb~~ trading is permitted during an extended~~organized~~ trading session of the Bourse for a ~~limited time~~ period of time determined by the Bourse after the close of the regular trading session.

The extended~~curb~~ trading session will begin once all settlement prices for a given futures contract have been posted and will be of a duration determined by the Bourse.

The extended~~Curb~~ trading session is governed by the Bourse who shall decide of the derivative instruments and of the expiry months and of the trading range eligible for trading during the extended~~curb~~ trading session and of the permitted price ranges for transactions executed during that session. ~~However, during the curb trading session, a trade may not take place at a price which is outside of the high and low for the day, except for contracts which have been settled outside of their high low range of the day, in which case, trades during the curb session may occur only at the settlement price.~~

Specifications

Option on Three-month Canadian Bankers' Acceptance Futures

Trading Unit	One Three-month Canadian Bankers' Acceptance Futures (BAX) contract.
Contract Months	Four nearest months in the BAX futures quarterly cycle (March, June, September and December).
Price Quotation	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 × C\$25).
Last Day of Trading	Trading ceases at 10:00 a.m. (EST) on the 2 nd London (Great Britain) banking day prior to the 3 rd Wednesday of the contract month. If the determined day is an exchange or banking holiday in Montreal or Toronto, the last trading day shall be the previous banking day.
Contract Type	American style.
Minimum Price Fluctuation	0.005 = C\$12.50 per contract.
Reporting Limit	300 options or futures equivalent contracts. For the purpose of calculating this limit, positions in the options contracts are aggregated with positions in the underlying futures contracts. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.
Position Limits	Information on Position Limits can be obtained from the Exchange as they are subject to periodic changes.
Strike Prices	Set at a minimum 0.125 point intervals.
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Exchange as they are subject to periodic changes.
Daily Price Limits	None
Trading Hours (Montréal time)	Regular session: 8:00 a.m. to 3:00 p.m. ExtendedCurb trading session: The extendedeurb trading session begins once settlement prices have been determined and ends at 4:00 p.m. 8:00 a.m. to 3:00 p.m. (EST/EDT).
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	OBX.