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CIRCULAR
May 31, 2013

REQUEST FOR COMMENTS

EXTENDING OBX TO THE FIFTH THROUGH EIGHT MONTHS OF THE QUARTERLY CYCLE

AMENDMENTS TO OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACT SPECIFICATIONS

The Rules and Policies Committee of Bourse de Montréal Inc. (the **Bourse**) has approved amendments to the Options on Three-Month Canadian Bankers' Acceptance Futures (OBX) contract specifications in order to increase the number of listed contract months. The standard OBX options contract specifications currently stipulate that the contract months listed for this product are the four nearest months in the March, June, September, December quarterly cycle. The Bourse proposes that, henceforth, the contract months listed for standard OBX options shall be the nearest eight months in the March, June, September, December quarterly cycle.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **July 2, 2013**. Please submit your comments to:

M^e Pauline Ascoli
Vice-President, Legal Affairs, Derivatives
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Québec H4Z 1A9
E-mail: legal@m-x.ca

A copy of these comments shall also be forwarded to the *Autorité des marchés financiers* (the "**Autorité**") to:

M^e 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

Circular no.: 104-2013

Appendices

For your information, you will find in the appendices an analysis of the proposed amendments as well as the amended standard OBX options contract specifications. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as determined by the *Derivatives Act* (R.S.Q., chapter I-14.01).

Process for Changes to the Rules

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 and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the *Derivatives Act* (R.S.Q., chapter I-14.01).



EXTENDING OBX TO THE FIFTH THROUGH EIGHT MONTHS OF THE QUARTERLY CYCLE

AMENDMENTS TO OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACT SPECIFICATIONS

I. OVERVIEW

Bourse de Montréal Inc. (the Bourse) hereby proposes to modify the contract specifications in regard to the Options on Three-Month Canadian Bankers' Acceptance Futures contract (OBX), with respect to how many contract months are listed. The contract specifications currently stipulate that contract months listed for standard OBX options are the four nearest months in the March, June, September, December quarterly cycle. The Bourse proposes that, henceforth, the contract months listed for standard OBX options shall be the nearest eight months in the March, June, September, December quarterly cycle.

II. ANALYSIS

Description and Analysis of Impacts

The underlying contract for standard OBX options is the Three-Month Canadian Bankers' Acceptance Futures (BAX) contract, more specifically the first four quarterly contract months, otherwise known as the front year or the whites. The next four quarterly contract months are known as the second year or the reds.

In the prevailing low or no interest rate environment around the globe, and even widespread expectations for an impending negative interest rate environment¹, the concentration of trading activity on short-term interest rate (STIR) futures contracts, and on the options on these futures contracts, has shifted. Market expectations are for this widespread interest rate environment to continue for some time², and as such trading activity on the front year has declined for some time now, with higher concentrations of STIR trading activity being seen further down the curve than has traditionally been the case, and with the lion's share of that activity to be found in the second year.

In these economic conditions, and with the resultant evolution of STIR futures trading activity, extending the Bourse's OBX offering will allow for a mirroring of this global trend highlighted by a natural and healthy progression of trading activity in options on STIR futures.

Recent regulatory and risk management reforms set forth in the US *Dodd-Frank Wall Street Reform and Consumer Protection Act*, the *Markets in Financial Instruments Directive (MiFID)* and the *Markets in Financial Instruments Directive Regulation (MiFIR)* as well as in the *European Market Infrastructure Regulation (EMIR)* stem from G-20 commitments to mitigate counterparty risk by utilizing mandatory clearing and to foster trading on trading venues to improve price discovery and transparency. These

¹ MACLEANS – England's upside down interest (March 11, 2013) <http://www2.macleans.ca/tag/interest-rates/>.

² MACLEANS – Bank of Canada: interest rate to stay at one percent for 'period of time' (March 6, 2013) <http://www2.macleans.ca/tag/interest-rates/>.

reforms are encouraging market participants in the Over-the-Counter (OTC) market to shift their business towards listed and centrally cleared derivatives contracts, such as OBX, thus enhancing transparency and price discovery for the Canadian derivatives market.

Furthermore, the Bourse intends to launch in 2013, an OBX Market Making program and an OBX Liquidity Provider Program, both of which will be designed to increase liquidity and trading activity on the OBX contract. By listing the proposed four additional quarterly contract months, the anticipated increase in OBX trading activity will be able to naturally progress further out along the yield curve.

Drafting Process

The drafting process was driven by a number of factors, firstly, market evolution as a result of the prevailing economic environment, secondly, the need to harmonise with competing derivatives exchanges and third, market demand to extend the contract months for the standard OBX options.

Impacts on Technological Systems

The proposed changes should have no impact on the technological systems of the Bourse, of the Bourse's approved participants or of any other market participants.

Benchmarking

The chart below demonstrates the concentrations of open interest on STIR futures, as a percentage of overall open interest, at major international derivatives exchanges around the world, as of March 2013.

**FIGURE 1: STIR futures - Open Interest
Percentage of total, as of March 2013**

Contract year	Associated colour	CME Eurodollar	Euronext Euribor	Euronext Sterling	ASX 90-Day Bank Bill	MX BAX
1	White	28.06%	42.98%	42.45%	84.90%	70.22%
2	Red	29.17%	34.74%	39.37%	14.90%	28.19%
3	Green	25.70%	18.72%	16.76%	0.20%	1.59%
4	Blue	11.41%	2.91%	1.39%		
5	Gold	4.48%	0.65%	0.03%		
6	Purple	0.91%				
7	Orange	0.18%				
8	Pink	0.06%				
9	Silver	0.03%				
10	Copper	0.01%				

Source: Research & Development, Bourse de Montréal Inc.

The chart below demonstrates the concentrations of average daily trading volumes for STIR futures at major international derivatives exchanges around the world, over the period of December 2012 to March 2013.

**FIGURE: 2 STIR futures - Average Daily Volume
December 2012 to March 2013**

Contract year	Associated colour	CME Eurodollar	Euronext Euribor	Euronext Sterling	ASX 90-Day Bank Bill	MX BAX
1	White	381,592	522,162	196,189	80,303	66,917
2	Red	535,046	410,477	201,144	7,248	24,977
3	Green	403,770	179,893	85,961	74	888
4	Blue	210,187	29,859	3,370		
5	Gold	86,032	2,054	108		
6	Purple	8,246				
7	Orange	848				
8	Pink	223				
9	Silver	138				
10	Copper	140				

Source: Research & Development, Bourse de Montréal Inc.

The chart below lists how far out the standard options on STIR futures offerings, and the STIR futures offerings themselves, go at major international derivatives exchanges around the world, as of March 2013.

**FIGURE 3: Standard options offered on STIR futures
As of March 2013**

Exchange / Product	Strike intervals	Maturities covered	Futures listed	Futures Open interest % of reds / % of greens
MX OBX	0.125	Whites	up to the greens, three years out	28% / 2%
CME Eurodollar options	0.125	Whites, reds and greens	up to the coppers, ten years out	29% / 26%
Euronext Euribor options	0.125	Whites, reds	up to the purples, six years out	35% / 19%
Euronext Sterling options	0.125	Whites, reds	up to the purples, six years out	39% / 17%
ASX 90-day bank bill options	0.125	Whites + the first two reds	up to the golds, five years out	15% / 0.20%

Source: Research & Development, Bourse de Montréal Inc.

The chart below compares average daily trading volumes on standard options on STIR futures at major international derivatives exchanges around the world, from 2008 to 2012.

FIGURE 4: Average Daily Volume Comparison of standard options on STIR futures

Exchange / Product	2008	2009	2010	2011	2012
CME					
Eurodollar options	740,481	466,482	422,503	400,219	190,830
Euronext					
Euribor options	416,916	475,048	469,293	492,355	274,985
Sterling options	230,779	147,955	101,386	83,952	34,953
ASX (SFE)					
90-Day Bank Bills Options	1,121	130	160	210	30
MX					
OBX options	1,124	939	1,399	2,550	1,972

Source: Research & Development, Bourse de Montréal Inc.

The chart below compares the trading volumes of standard options on STIR futures, as a percentage of the average daily trading volume on the underlying futures contracts, at major international derivatives exchanges around the world, from 2008 to 2012.

**FIGURE 5: Volume comparison of standard options on STIR futures
Percentage of futures**

Exchange / Product	2008	2009	2010	2011	2012
CME					
Eurodollar options	31.38%	26.86%	20.92%	17.88%	11.32%
Euronext					
Euribor options	46.71%	63.06%	48.72%	52.30%	39.53%
Sterling options	56.50%	36.39%	23.16%	18.67%	7.82%
ASX (SFE)					
90-Day Bank Bills Options	1.42%	0.23%	0.23%	0.24%	0.04%
MX					
OBX options	2.83%	3.06%	2.55%	3.04%	2.37%

Source: Research & Development, Bourse de Montréal Inc.

The chart below breaks down the trading volume concentrations of standard options on STIR futures at major international derivatives exchange around the world, for the period of December 2012 to March 2013. These concentrations are based on three month average daily volumes, estimated using Bloomberg.

FIGURE 6: Standard options on STIR futures Volume Breakdown

December 2012 to March 2013

Contract year	Associated colour	CME Eurodollar	Euronext Euribor	Euronext Sterling
1	White	37%	82%	70%
2	Red	24%	18%	30%
3	Green	39%		

Source: Research & Development, Bourse de Montréal Inc.

III. SUMMARY OF THE PROPOSED AMENDMENTS TO THE RULES OF THE BOURSE

The Bourse proposes to amend the Options on Three-Month Canadian Bankers' Acceptance Futures contract specifications to state that the contract months to be listed for standard OBX options are the eight nearest months in the March, June, September, December quarterly cycle.

IV. OBJECTIVE OF THE PROPOSED AMENDMENTS TO THE RULES OF THE BOURSE

The objective of the proposed amendments is to allow for additional trading opportunities on OBX, with an end goal of furthering liquidity and trading activity on the OBX contract.

V. PUBLIC INTEREST

The proposed amendments to the Options on Three-Month Canadian Bankers' Acceptance Futures contract specifications will enable the Bourse to better meet the diverse needs of market participants, while furthering transparency and price discovery for the Canadian derivatives markets as a whole.

Furthermore, extending the offering of standard OBX options will aid in the development of a full Canadian yield curve and will provide market participants with greater choice and a broader range of interesting and timely trading opportunities.

VI. PROCESS

The proposed amendments, including this Analysis, are to 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. They will also be published by the Bourse for a 30-day request for comments period.

VII. ATTACHED DOCUMENTS

OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACT SPECIFICATIONS

Options on Three-Month Canadian Bankers' Acceptance Futures

Trading Unit

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

Underlying Futures Contract

- For standard OBX options, the underlying BAX futures contract is the futures contract that expires in the month in which the option expires.
- For Serial Mid-Curve Options (OBW), the underlying BAX futures 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 option that expires in January or February is the March futures contract in the next calendar year.
- For 1-Year (OBY) and 2-year (OBZ) Quarterly Mid-Curve Options, the underlying BAX futures contract is the corresponding quarterly futures contract that expires one or two years after the option expires, respectively. For example, the underlying futures contract for the One-year Quarterly Mid-Curve option that expires in June is the June futures contract in the next calendar year.

Contract Months

- For standard OBX options and for 1-Year (OBY) and 2-year (OBZ) Quarterly Mid-Curve Options: ~~Four nearest months of the quarterly cycle: March, June, September and December~~ Eight nearest months in the March, June, September, December quarterly cycle.
- For one-year and two-year quarterly mid-curve options: Four nearest months in the March, June, September, December quarterly cycle.
- For Serial Mid-Curve Options (OBW): Two nearest non quarterly months (serials): January, February, April, May, July, August, October and November.

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 x C\$25).

Cabinet trades

Cabinet trades (defined as options with a premium less than 0.01) are quoted in 0.001 point (0.1 basis point) where each 0.001 point represents C\$2.50.

Last Trading Day/Expiration

- For standard OBX Options: Trading ceases at 10:00 a.m. (Montréal time) on the 2nd London (Great Britain) banking day prior to the 3rd Wednesday of the contract month. If the fixed day is a Bourse or bank holiday in Montréal or Toronto, the last trading day shall be the previous bank business day.
- For all Mid-Curve Options: Trading ceases at 10:00 a.m. (Montréal time) on the Friday immediately preceding the 3rd Wednesday of the contract month. If the fixed day is an exchange or banking holiday in Montreal or Toronto, the last trading day shall be the previous bank business day.

Contract Type

American style.

Price Fluctuation

- 0.005 = C\$12.50 per contract.
- 0.001 = C\$2.50 per contract for cabinet trades.

Strike Prices

Set at a minimum 0.125 point intervals.

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, one option contract is equivalent to one futures contract.

Daily Price Limit

None

Trading Hours (Montréal time)

Regular session: 6:00 a.m. to 4:00 p.m.

Note: During early closing days, the regular session closes at 1:30 p.m.

Ticker Symbol

- For standard OBX Options: OBX
- For Serial Mid-Curve Options : OBW
- For 1-Year Quarterly Mid-Curve Options : OBY
- For 2-Year Quarterly Mid-Curve Options : OBZ

Specifications - Trading

31.05.13, [00.00.00](#)