



**CIRCULAR**  
August 8, 2003

## **REQUEST FOR COMMENTS**

### **ADDITIONAL OBX CONTRACT MONTHS AMENDMENTS TO ARTICLES 6751 AND 6757**

#### **Summary**

The Executive Committee of Bourse de Montréal Inc. (the "Bourse") has approved amendments to articles 6751 and 6757 of the Rules of the Bourse, regarding OBX options on the Three-Month Canadian Bankers' Acceptance futures contract. The suggested amendments will permit the Bourse to expand the range of available OBX contract months. The approval of the proposed amendments will permit the Bourse to introduce OBX short-dated options on deferred one or two year BAX futures ("Mid-curve") and "serial" options (nearest non-quarterly months).

#### **Process for Changes to the Rules**

The Bourse is recognized as a self-regulatory organization ("SRO") by the Commission des valeurs mobilières du Québec (the "Commission"). In accordance with this recognition the Bourse carries on activities as an exchange and as an 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 of the Bourse delegated its powers of approval of Rules and Policies to its Executive Committee. The changes approved by the Executive Committee are submitted to the Commission for approval.

Circular no.: 118-2003

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Comments on the proposed amendments to articles 6751 and 6757 must be submitted within 30 days following the date of publication of this notice in the bulletin of the Commission. Please submit your comments to:

*Ms. Joëlle Saint-Arnault  
Vice-President, Legal Affairs  
and Secretary  
Bourse de Montréal Inc.  
Tour de la Bourse  
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A copy of these comments shall also be forwarded to the Commission to:

*Ms. Denise Brosseau  
Secretary  
Commission des valeurs mobilières du Québec  
800 Victoria Square, 22<sup>nd</sup> Floor  
P.O. Box 246, Tour de la Bourse  
Montréal (Quebec) H4Z 1G3  
E-mail : [consultation-en-cours@cvmq.com](mailto:consultation-en-cours@cvmq.com)*

## **Appendices**

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined following approval by the Commission des valeurs mobilières du Québec.



**BOURSE DE MONTRÉAL INC.  
AMENDMENTS TO ARTICLES 6751  
AND 6757 - ADDITIONAL OBX  
CONTRACT MONTHS**

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**I OVERVIEW**

**A -- Proposal**

In light of the strong growth in the OBX options on the three-month Canadian Bankers' Acceptance futures contract (+893% for the first 6 months of 2003, an average of 1,827 contracts per day), the Bourse is considering expanding the range of available OBX contract months.

The Bourse plans to add OBX short-dated options on deferred BAX futures ("Mid-curve" options) to complement the current listing of quarterly OBX options that are based on the same underlying BAX contract month. These options will provide a cost-effective method of taking a short-term view or protection on interest rates one or two years out on the yield curve, hence the name "Mid-Curve" options.

*For example, a 1-year "Mid-Curve" OBX option that expires in September 2003 would have as an underlying futures contract, the first BAX "Red" contract, i.e. the September 2004 BAX contract.*

The Bourse also plans to add OBX "serial" options (two nearest non-quarterly months) to the quarterly OBX options.

*For example, a "serial" option on the first quarterly BAX contract that expires in August 2003 would have as an underlying futures contract the September 2003 BAX contract.*

**B -- The Issue**

In order to add these new OBX contract months, changes to the current Bourse rules are required. Specifically, Article 6757 that relates to the last trading day needs to be amended. The rule specifies that all OBX contracts cease trading on the same day as the expiration of the underlying futures contract. This is clearly not the case with OBX "Mid-Curve" and "Serial" options, since they expire prior to the expiration of the underlying futures contract.

**C -- Objectives**

The proposed amendments to Rule Six of the Bourse have the following objectives:

- i) Accommodate the listing of OBX options with a last day of trading that does not coincide with the termination of trading of the underlying futures contract; and
- ii) Provide market participants with an efficient short-term tool for managing exposure to longer-dated interest rates at a lower price than a vanilla OTC option, or a traditional OBX quarterly option.

**II -- ANALYSIS**

**A -- Comparison with Similar Provisions in other Markets**

The following table shows the volume of activity of "Mid-Curve" options on short-term interest rate futures contracts on international futures exchanges:

**B – Conclusion**

The approval of the proposed amendments will permit the Bourse to introduce OBX short-dated options on deferred one or two year BAX futures (“Mid-Curve”) and “serial” options (nearest non-quarterly months) to complement the current offering of standard quarterly OBX options and meet market demand.

**C – Public Interest**

The proposal is designed to make it more cost-efficient for participants to use the OBX contracts listed at the Bourse.

The proposal does not permit unfair discrimination among customers, brokers, dealers and Approved Participants. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

Options on short Term interest rate Futures	Exchange	Average Daily Volume Jan-June 2003	Average Daily Volume Jan-June 2002	% variation
EURODOLLAR	CME			
Mid-Curve Options		112 375	82 696	36%
Regular Options		331 852	347 689	-5%
EURIBOR	LIFFE			
Mid-Curve Options		14 537	5 677	156%
Regular Options		252 182	133 927	88%
STERLING	LIFFE			
Mid-Curve Options		5 664	1 384	309%
Regular Options		8 745	29 456	-79%

Source: CME / LIFFE

The CME lists both 1-year and 2-year Eurodollar Mid-Curve option contracts.

LIFFE lists only 1-year Mid-Curve option contracts for both the Euribor and Sterling contracts.

**RULE SIX**

**OPTIONS ON 3-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES**  
(07.04.94)

**Section 6751 - 6770**  
**Specific rules concerning the contract specifications**

**6751 Application of Specific Rules**  
(07.04.94)

In addition to sections 6601-6610 and 6621-~~6640~~6639, options on 3-Month Canadian Bankers' Acceptance Futures shall be subject to the regulation contained in this section.

**6757 Last Trading Day**  
(07.04.94)

Unless otherwise determined by the Bourse, options cease trading on the same day and time as the underlying futures contract, except for options based on deferred futures contracts that cease trading prior to the underlying futures contract.