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CIRCULAR 123-14
September 10, 2014

REQUEST FOR COMMENTS

AMENDMENTS TO ARTICLE 15608 OF THE RULES OF BOURSE DE MONTREAL INC.

MODIFICATION OF POSITION LIMIT CALCULATION METHODOLOGY

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to article 15608 of the Rules of the Bourse in order modify to the position limit calculation methodology for the benefit of the Bourse's Government of Canada Bond Futures which includes the Two-Year Government of Canada Bond Futures (CGZ), Five-Year Government of Canada Bond Futures (CGF), Ten-Year Government of Canada Bond Futures (CGB), and 30-Year Government of Canada Bond Futures (LGB).

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **October 10, 2014**. Please submit your comments to:

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Bourse de Montréal Inc.
Tour de la Bourse
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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**

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

For your information, you will find in the appendices an analysis of the proposed amendments as well as the amended article 15608 of the Rules of the Bourse. 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).

AMENDMENTS TO ARTICLE 15608 OF THE BOURSE DE MONTREAL INC.'S RULES

MODIFICATION OF POSITION LIMIT CALCULATION METHODOLOGY

I. SUMMARY

The Bourse de Montreal Inc. (hereinafter "the Bourse") proposes to modify the position limit calculation methodology for the benefit of the Bourse's Government of Canada Bond Futures which includes the Two-Year Government of Canada Bond Futures (CGZ), Five-Year Government of Canada Bond Futures (CGF), Ten-Year Government of Canada Bond Futures (CGB), and 30-Year Government of Canada Bond Futures (LGB). Consequently the Bourse hereby proposes to amend article 15608 of the Rules and Policies of the Bourse (hereinafter "the Rules").

II. ANALYSIS

a. Definitions

i. Position Limit:

The maximum number of options or futures contracts an investor is allowed to hold on one underlying security. Exchanges establish position limits for each contract based on: the supply of the underlying interest available, open interest, and in some cases trading volumes.

ii. Corner a Market:

To acquire sufficient interest of a security or commodity to be able to manipulate its price

iii. Notional Value:

The total value of a leveraged position's assets. This term is commonly used in the options, futures and currency markets because a very small amount of invested money can control a large position (and have a large consequence for the trader).

b. Background

The Bourse's Regulatory Division, (hereinafter "the Division"), publishes position limits on Futures and Options on Futures contracts (hereinafter "Futures") on a monthly basis. The purpose of establishing position limits is to prevent an excessive position concentration that could potentially result in disorderly pricing or market manipulation. This is particularly true in the case of futures contracts that require physical delivery of the underlying interest, since position limits serve as a mechanism to prevent the potential cornering of the underlying market by ensuring that the notional value of the futures positions (long or short) that can be held by single participant is not excessively large relative to the available supply of the underlying interest. This in turn ensures that no one single participant can disrupt the futures markets.

At the current time, pursuant to Article 15608 of the Rules and Policies of the Bourse, the Position limits on the Bourse's Bond futures contracts are calculated as follows:

"The greater of 4,000 contracts or of 20% of the average daily open interest for all contract months during the preceding three calendar months".

The historical results of the current methodology are illustrated in the table below.

<u>Table 1: Position Limits for Bond Futures July 2012 – June 2014</u>

	CGZ		CGF		CGB		LGB	
	Speculator	Hedger	Speculator	Hedger	Speculator	Hedger	Speculator	Hedger
July 2012	4,000	4,000	4,000	4,000	48,185	48,185	4,000	4,000
August 2012	4,000	4,000	4,000	4,000	47,290	47,290	4,000	4,000
September 2012	4,000	4,000	4,000	4,000	44,050	44,050	4,000	4,000
October 2012	4,000	4,000	4,000	4,000	42,675	42,675	4,000	4,000
November 2012	4,000	4,000	4,000	4,000	42,505	42,505	4,000	4,000
December 2012	4,000	4,000	4,000	4,000	45,365	45,365	4,000	4,000
January 2013	4,000	4,000	4,000	4,000	50,655	50,655	4,000	4,000
February 2013	4,000	4,000	4,000	4,000	53,485	53,485	4,000	4,000
March 2013	4,000	4,000	4,000	4,000	54,285	54,285	4,000	4,000
April 2013	4,000	4,000	4,000	4,000	54,460	54,460	4,000	4,000
May 2013	4,000	4,000	4,000	4,000	60,610	60,610	4,000	4,000
June 2013	4,000	4,000	4,000	4,000	69,185	69,185	4,000	4,000
July 2013	4,000	4,000	4,000	4,000	70,220	70,220	4,000	4,000
August 2013	4,000	4,000	4,000	4,000	64,355	64,355	4,000	4,000
September 2013	4,000	4,000	4,000	4,000	56,310	56,310	4,000	4,000
October 2013	4,000	4,000	4,000	4,000	54,540	54,540	4,000	4,000
November 2013	4,000	4,000	4,000	4,000	53,435	53,435	4,000	4,000
December 2013	4,000	4,000	4,000	4,000	52,845	82,845	4,000	4,000
January 2014	4,000	4,000	4,000	4,000	53,030	53,030	4,000	4,000
February 2014	4,000	4,000	4,000	4,000	56,785	56,785	4,000	4,000
March 2014	4,000	4,000	4,000	4,000	65,680	65,680	4,000	4,000
April 2014	4,000	4,000	4,000	4,000	67,335	67,335	4,000	4,000
May 2014	4,000	4,000	4,000	4,000	60,670	60,670	4,000	4,000
June 2014	4,000	4,000	4,000	4,000	63,705	63,705	4,000	4,000

Source: Market Operations, Montreal Exchange Inc.

As is evident from the table above, all futures contracts with exception of the CGB have insufficient open interest for Article 15608's 20% provision to apply. Therefore, the position limit is fixed at 4000 contracts as it is the greater of the two. Furthermore, the methodology currently used does not take into consideration the supply of underlying bonds eligible for delivery in the basket, which is a crucial factor to consider when establishing limits that are designed to prevent disorderly pricing and market manipulation in physically settled contracts.

The reason for the gap between the CGB and the other less liquid futures, illustrated above, is due to the relative inactivity of the CGZ, CGF and LGB futures contracts prior to July 2011. Note that the Bourse launched the Yield-Curve Initiative in July 2011, for the CGZ and CGF contracts, whereby it compensated three market makers with a combination of monthly stipends and profit sharing in an effort to draw interest to these products. The objective was for the 3 market makers to provide continuous markets in both the CGZ and CGF so as to attract interest from end user clients. It was believed at the time that by providing continuous markets, potential buy side clients would enter the market and generate the critical mass to make the product a viable risk management tool for institutional investors and an effective price discovery mechanism for the underlying interest of the futures contracts. Although the initiative did generate interest, it did not achieve the projected levels of activity.

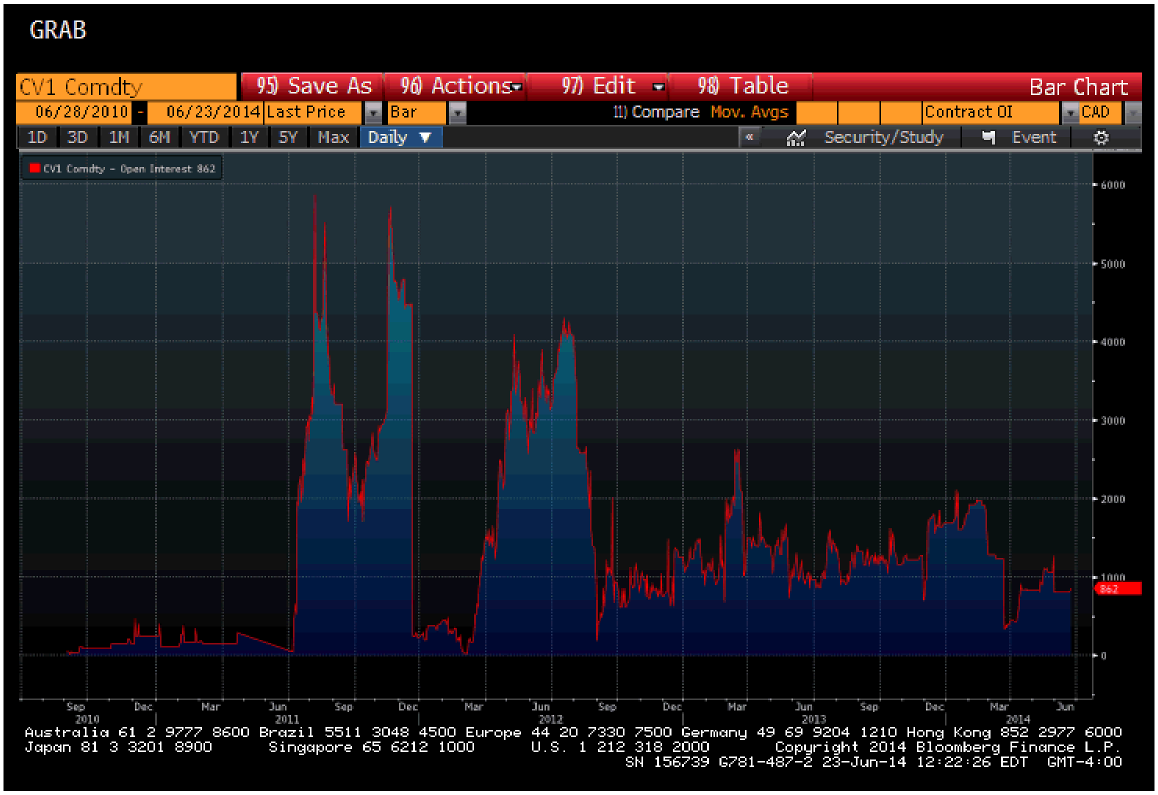
As a result of the yield curve project open interest in the CGF has steadily increased from 0 in June 2011 to a high of approximately 13,000 contracts in May 2014, but has dropped off since then to approximately 8000 contracts which has been the historical resistance level. (Please see Figure 1 below)

Figure 1: CGF Open Interest June 2011 –June 2014

Source: Bloomberg, LP

Figure 2 below demonstrates that the CGZ contract open interest increased to highs of approximately 6000 contracts in July and October of 2011, which coincided with the launch of the yield-curve initiative, before dropping off again below the 4000 contract level, which coincidentally is the past and current position limit.

Figure 2: CGZ Open Interest June 2011 –June 2014



Source: Bloomberg LP

c. Rationale for Amendments

Analysis of the Current Methodology for Calculating Position Limits – Article 15608

The methodology for calculating the position limits for Government of Canada Bond futures is contained in article 15608 of the Bourse's Rules. The current methodology was created in 1989 and reflected the market reality at the time – very low volume, and relatively low individual positions. As the open interest in the CGB grew, the 20% of open interest limit superseded the 4000 contract limit, resulting in a dynamic limit that supports the demands of market participants for CGB positions.

The current calculation method used by the Bourse's Regulatory Division to establish position limits yields the results illustrated in Table 2. The Notional Value of the Position Limits (NVPL) as a percentage of the Notional Value of Deliverable Bonds (NVDB) for the CGB averages 17.39%. The variation in the NVPL as a percentage of the NVDB varies between a **minimum** value of 14.31% and a **maximum** value of 26.10%. This ratio of NVPL to NVDB has proved effective at preventing excessive concentration of positions and disorderly pricing.

In the case of the other Bond futures products (CGZ, CGF, & LGB), it is clear that the NVPL as a percentage of NVDB is extremely low as the maximum values never exceed 3.92% and in the case of the CGF, the minimum value has dipped below 1% on a few occasions. Using the CGB figures as a benchmark it is evident that the position limits for the CGZ, CGF, and LGB can increase significantly without jeopardizing market integrity.

Table 2: Notional Value Position Limits vs. Notional of Supply of Deliverable Bonds

	Position Limits ($100,000) ($200, 000 CGZ)				Supply of Deliverable Bonds ($ Millions)				NVPL as a % of NVDB			
	CGZ	CGF	CGB	LGB	CGZ	CGF	CGB	LGB	CGZ	CGF	CGB	LGB
July 2012	4,000	4,000	48,185	4,000	38,767	30,900	24,200	35,899	1.03%	1.29%	19.91%	1.11%
August 2012	4,000	4,000	47,290	4,000	42,067	37,700	24,200	29,799	0.95%	1.06%	19.54%	1.34%
September 2012	4,000	4,000	44,050	4,000	42,067	29,799	24,200	29,799	0.95%	1.34%	18.20%	1.34%
October 2012	4,000	4,000	42,675	4,000	34,500	41,100	24,200	37,699	1.16%	0.97%	17.63%	1.06%
November 2012	4,000	4,000	42,505	4,000	34,500	41,100	29,700	37,699	1.16%	0.97%	14.31%	1.06%
December 2012	4,000	4,000	45,365	4,000	37,800	41,100	29,700	39,299	1.06%	0.97%	15.27%	1.02%
January 2013	4,000	4,000	50,655	4,000	34,200	31,200	29,700	39,299	1.17%	1.28%	17.06%	1.02%
February 2013	4,000	4,000	53,485	4,000	37,500	38,000	32,600	39,699	1.07%	1.05%	16.41%	1.01%
March 2013	4,000	4,000	54,285	4,000	40,800	41,400	32,600	39,651	0.98%	0.97%	16.65%	1.01%
April 2013	4,000	4,000	54,460	4,000	34,200	20,400	35,500	27,200	1.17%	1.96%	15.34%	1.47%
May 2013	4,000	4,000	60,610	4,000	37,500	20,400	38,400	27,200	1.07%	1.96%	15.78%	1.47%
June 2013	4,000	4,000	69,185	4,000	37,500	20,400	38,400	28,600	1.07%	1.96%	18.02%	1.40%
July 2013	4,000	4,000	70,220	4,000	33,300	10,200	26,900	28,600	1.20%	3.92%	26.10%	1.40%
August 2013	4,000	4,000	64,355	4,000	36,600	17,000	26,900	29,000	1.09%	2.35%	23.92%	1.38%
September 2013	4,000	4,000	56,310	4,000	39,900	20,400	26,900	29,000	1.00%	1.96%	20.93%	1.38%
October 2013	4,000	4,000	54,540	4,000	33,300	20,400	35,300	29,000	1.20%	1.96%	15.45%	1.38%
November 2013	4,000	4,000	53,435	4,000	36,600	20,400	35,300	29,000	1.09%	1.96%	15.14%	1.38%
December 2013	4,000	4,000	52,845	4,000	39,900	20,400	35,300	30,400	1.00%	1.96%	14.97%	1.32%
January 2014	4,000	4,000	53,030	4,000	32,700	10,200	35,300	30,400	1.22%	3.92%	15.02%	1.32%
February 2014	4,000	4,000	56,785	4,000	36,000	17,000	35,300	30,400	1.11%	2.35%	16.09%	1.32%
March 2014	4,000	4,000	65,680	4,000	36,000	20,400	38,000	32,200	1.11%	1.96%	17.28%	1.24%
April 2014	4,000	4,000	67,335	4,000	29,400	20,400	38,000	32,200	1.36%	1.96%	17.72%	1.24%
May 2014	4,000	4,000	60,670	4,000	32,800	20,400	40,700	32,200	1.22%	1.96%	14.91%	1.24%
June 2014	4,000	4,000	63,705	4,000	32,800	27,200	40,700	32,200	1.22%	1.47%	15.65%	1.24%
Average	**4,000**	**4,000**	**55,486**	**4,000**	**36,279**	**25,746**	**32,417**	**32,352**	**2.22%**	**1.81%**	**17.39%**	**1.26%**
Max	**4,000**	**4,000**	**70,220**	**4,000**	**42,067**	**41,400**	**40,700**	**39,699**	**2.72%**	**3.92%**	**26.10%**	**1.47%**
Min	**4,000**	**4,000**	**42,505**	**4,000**	**29,400**	**10,200**	**24,200**	**27,200**	**1.90%**	**0.97%**	**14.31%**	**1.01%**
Median	**4,000**	**4,000**	**54,373**	**4,000**	**36,000**	**20,400**	**35,300**	**30,400**	**2.22%**	**1.96%**	**16.09%**	**1.32%**

Source: Market Operations, Bourse de Montréal Inc.

Current end user clients of the CGF and CGZ contracts have described the current position limits as far too low for the product to gain any meaningful traction. Furthermore, bona fide hedgers exceeding the position limit must request an exemption as per the provisions of article 14157 and Policy C1 of the Bourse's rules. Most participants find this process very cumbersome, and instead resort to using the over-the-counter (OTC) swap market to hedge or gain exposure to the five year markets.

Potential end-user clients that the Bourse is actively soliciting have explained that the current position limits are not feasible for them to invest in any meaningful way in the product as the value of the underlying interest they transact is many times larger than the notional value of the current position limits. Consequently, this segment of the market also opts to use the over—the-counter (OTC) swaps market to hedge or gain exposure to the five year markets.

Market needs have evolved significantly since 1989, and market participants are seeking to open large positions in less liquid contracts in order to meet their business needs. These positions are large relative to the current open interest of the less liquid contracts, but they are proportionate to the portfolios that are managed by these current and potential participants. The methodology in its current form is no longer adequate to support the growth of less liquid contracts such as the CGZ and CGF. Higher limits, always ensuring that they are consistent with market integrity, are required to grow these contracts.

Higher position limits have another benefit for the development of the contracts, because higher position limits will lead to the growth of open interest. Open interest is a key indicator of the liquidity of a market, as well as a criterion sought by numerous large institutional clients. These clients will not enter a market unless the open interest meets a minimum threshold. As noted above, these large institutions' interest in the CGF and CGZ is dependent on their ability to acquire very large positions, which are generally in excess of current position limits but in relative proportion to the portfolios which they manage. The Bourse offers a block trade facility to permit these large transactions, but the position limits are too restrictive for the transaction size that these clients need to implement.

Markets having relatively large open interest are most often characterized by numerous buyers and sellers, tight Bid/Ask spreads, and deep order-book depth. Market participants wishing to enter the market and create new positions, or exit the market by closing out existing positions, will do so in markets where Bid/Ask spreads are extremely efficient, and where the size of the resting orders are sufficiently large to fill incoming orders. Examples of this are the CGB and BAX markets where Bid/Ask spreads are the tightest they can be at 1 tick and with a sufficiently large market depth to fill most incoming orders at efficient market prices. Note that the preceding results in an efficient price formation process.

Increasing position limits will therefore provide a dual benefit: (1) it will allow larger transactions and (2) it will increase the total open interest of the CGF and CGZ contracts. An increase in open interest, even if initially driven by large block trades, will attract additional activity to the market.

The Bourse is determined to develop CGF and CGZ bond futures markets such that they became efficient price discovery mechanisms for their respective underlying interest, much in the way that the CGB has become the price discovery mechanism for underlying Ten-Year Government of Canada Bonds. Accomplishing this will ensure that investors will have a viable alternative to the cash and OTC markets and at the same time have a tool that will permit them to accurately price the underlying 2 and 5 year Government of Canada Bonds as is the case currently in the CGB market .

For all of the above reasons it is important for the Bourse to make every effort to grow the open interest of the CGF and CGZ contracts, and therefore to increase the position limits from the current 4000 contract limit.

In conclusion, based on the rationale provided above it is very clear that the current methodology for calculating positions limits is not adequate for the Bourse's less liquid bond futures contracts (CGZ, CGF, & LGB). Furthermore, the current method makes it increasingly difficult for the Bourse to attract new participants to the markets for the three products enumerated above. Maintaining the current methodology ensures that participants who have the financial means to potentially increase the open interest for these products will never enter the markets, thereby jeopardizing the success of futures contracts which have the potential of becoming efficient price discovery mechanisms for their respective underlying interests.

Consequently, the Bourse proposes to amend the methodology so as to increase the position limits on the less liquid bond futures product while at the same time ensuring that the new methodology continues to yield position limits that will prevent excessive concentration and disorderly pricing. The new methodology must ensure that the position limits it yields continue to prevent the potential cornering of the underlying market by ensuring that the notional value of the futures positions (long or short) is not excessively large relative to the available supply of the underlying interest.

d. Proposed Amendments and Analysis of Market Impacts

Having demonstrated that the position limit calculation methodology in its current form is not adequate, the Bourse proposes to amend the calculation methodology as follows:

One half of the sum of 20% of the total outstanding deliverables bonds of the front contract month and the greater of 4,000 contracts or 20% of the average daily open interest for all contract months during the preceding three calendar months.

For example in the case of the CGF in June 2014 the Total Outstanding Bonds available for delivery was \$27,200,000,000 which represents 272,000 CGF futures contracts. The 20% of the average daily open interest for all contract months during the preceding 3 calendar months yielded an amount less than 4000 contracts therefore 4000 contracts was retained for the purpose of the calculation. Therefore using the new calculation method would yield the following:

$$\frac{(20\% \times 272{,}000) + (4{,}000)}{2} = 29{,}200$$

Therefore, based on the proposed new calculation methodology proposed by the Bourse, the position limit for the CGF futures contract for the month of June 2014 would have been 29,200 whose notional amount (\$2.92 Billion) represents 10.47% of the notional outstanding bonds available for delivery as opposed to 4000 (\$400 million) contacts which is currently the case.

The Bourse back-tested the results of the proposed methodology over a two year period to illustrate what the effects are on the other less liquid bond futures (CGZ, CGF, & LGB) as well as the effects on the CGB. The results of the back testing exercise are presented in Table 3 below.

As expected the position limits for the CGZ, CGF, & LGB increase markedly using the proposed new calculation methodology. It is however important to note that the NVPL as a percentage of NVDB of the new position limits never exceeds 12%. In fact the highest maximum value for any of the products is 11.96% which was the case for the CGF for the month July 2013. This is significantly lower than the ratio for the CGB using the current methodology, a ratio which has proven adequate for the prevention of excessive concentration. Although the ratio for the CGF and CGZ is still low relative to that of the CGB, the position limit increase is large enough to attract new participants to the market. It is expected that their entry into the market will impact the open interest for these products such that the average open interest over the preceding three month period will play a larger role in establishing the position limit.

In the case of the CGB, back testing using the proposed new calculation methodology yields a slightly higher overall average of 18.96% of NVPL as a percentage of NVDB compared to 17.39% using the old methodology. However the variation (5.89%) in the Minimum and Maximum values of 17.16% and 23.05% respectively, is markedly lower than the variation (11.79%) in the Minimum and Maximum values of 14.31% and 26.10% respectively using the old methodology. In addition the NVPL as a percentage of NVDB never exceeds 25% which the Bourse deems an adequate level to ensure that the risks of manipulation in the futures markets and cornering of the underlying market are mitigated.

Table 3: Notional Value of New Position Limits vs. Notional Supply of Deliverable Bonds

	New Position Limit				Supply of Deliverable Bonds ($ Millions)				NVPL as a % of NVDB			
	CGZ	CGF	CGB	LGB	**CGZ**	**CGF**	**CGB**	**LGB**	**CGZ**	**CGF**	**CGB**	**LGB**
July 2012	21,384	32,900	48,293	37,899	38,767	30,900	24,200	35,899	11.03%	10.65%	19.96%	10.56%
August 2012	23,034	39,700	47,845	31,799	42,067	37,700	24,200	29,799	10.95%	10.53%	19.77%	10.67%
September 2012	23,034	31,799	46,225	31,799	42,067	29,799	24,200	29,799	10.95%	10.67%	19.10%	10.67%
October 2012	19,250	43,100	45,538	39,699	34,500	41,100	24,200	37,699	11.16%	10.49%	18.82%	10.53%
November 2012	19,250	43,100	50,953	39,699	34,500	41,100	29,700	37,699	11.16%	10.49%	17.16%	10.53%
December 2012	20,900	43,100	52,383	41,299	37,800	41,100	29,700	39,299	11.06%	10.49%	17.64%	10.51%
January 2013	19,100	33,200	55,028	41,299	34,200	31,200	29,700	39,299	11.17%	10.64%	18.53%	10.51%
February 2013	20,750	40,000	59,343	41,699	37,500	38,000	32,600	39,699	11.07%	10.53%	18.20%	10.50%
March 2013	22,400	43,400	59,743	41,651	40,800	41,400	32,600	39,651	10.98%	10.48%	18.33%	10.50%
April 2013	19,100	22,400	62,730	29,200	34,200	20,400	35,500	27,200	11.17%	10.98%	17.67%	10.74%
May 2013	20,750	22,400	68,705	29,200	37,500	20,400	38,400	27,200	11.07%	10.98%	17.89%	10.74%
June 2013	20,750	22,400	72,993	30,600	37,500	20,400	38,400	28,600	11.07%	10.98%	19.01%	10.70%
July 2013	18,650	12,200	62,010	30,600	33,300	10,200	26,900	28,600	11.20%	11.96%	23.05%	10.70%
August 2013	20,300	19,000	59,078	31,000	36,600	17,000	26,900	29,000	11.09%	11.18%	21.96%	10.69%
September 2013	21,950	22,400	55,055	31,000	39,900	20,400	26,900	29,000	11.00%	10.98%	20.47%	10.69%
October 2013	18,650	22,400	62,570	31,000	33,300	20,400	35,300	29,000	11.20%	10.98%	17.73%	10.69%
November 2013	20,300	22,400	62,018	31,000	36,600	20,400	35,300	29,000	11.09%	10.98%	17.57%	10.69%
December 2013	21,950	22,400	61,723	32,400	39,900	20,400	35,300	30,400	11.00%	10.98%	17.49%	10.66%
January 2014	18,350	12,200	61,815	32,400	32,700	10,200	35,300	30,400	11.22%	11.96%	17.51%	10.66%
February 2014	20,000	19,000	63,693	32,400	36,000	17,000	35,300	30,400	11.11%	11.18%	18.04%	10.66%
March 2014	20,000	22,400	70,840	34,200	36,000	20,400	38,000	32,200	11.11%	10.98%	18.64%	10.62%
April 2014	16,700	22,400	71,668	34,200	29,400	20,400	38,000	32,200	11.36%	10.98%	18.86%	10.62%
May 2014	18,400	22,400	71,035	34,200	32,800	20,400	40,700	32,200	11.22%	10.98%	17.45%	10.62%
June 2014	18,400	29,200	72,553	34,200	32,800	27,200	40,700	32,200	11.22%	10.74%	17.83%	10.62%
Average	**20,140**	**27,746**	**60,160**	**34,352**	**36,279**	**25,746**	**32,417**	**32,352**	**11.11%**	**10.91%**	**18.69%**	**10.63%**
Max	**23,034**	**43,400**	**72,993**	**41,699**	**42,067**	**41,400**	**40,700**	**39,699**	**11.36%**	**11.96%**	**23.05%**	**10.74%**
Min	**16,700**	**12,200**	**45,538**	**29,200**	**29,400**	**10,200**	**24,200**	**27,200**	**10.95%**	**10.48%**	**17.16%**	**10.50%**
Median	**20,000**	**22,400**	**62,010**	**32,400**	**36,000**	**20,400**	**35,300**	**30,400**	**11.11%**	**10.98%**	**18.04%**	**10.66%**

Source: Market Operations, Bourse de Montréal Inc.

e. Benchmarking

The Bourse performed a benchmarking exercise to contrast the various methodologies used by other derivative exchanges, offering similar products, in establishing position limits. For the purpose of this analysis the Bourse based its comparison on the Chicago Mercantile Group (CME), EUREX, and London International Financial Futures Exchange (NYSE-LIFFE). The exchanges described all offer the full suite of

2, 5, 10 and 30 year government bond futures. The Bourse imposes position limits for all delivery months combined for each designated Government of Canada bond futures. It was learned during the benchmarking exercise that the international exchanges enumerated above do not impose similar position limits on their Government bond futures during the quarter covered by the futures contract. Position limits are only imposed on spot month contracts as described below. Consequently, it is not possible for the Bourse to formulate a meaningful comparison with other derivatives exchanges for non-spot month position limits

As noted above, with the exception of the NYSE-LIFFE, the exchanges enumerated above impose **spot month** position limits on the front month during the period immediately before delivery obligations are incurred for physical delivery contracts. The spot month position limits are presented in Table 4 below and are for illustrative purposes only.

Table 4: Spot Month Position Limits

	2 Year Bond Future	5 Year Bond Future	10 Year Bond Future	30 Year Bond Future
CME	50,000	115,000	95,000	25,000
EUREX	45,000	60,000	60,000	30,000
NYSE LIFFE	N/A	N/A	N/A	N/A

Source: EUREX: https://www.eurexchange.com/exchange-en/resources/circulars/830770/; CME: http://www.cmegroup.com/market-regulation/position-limits/; NYSE LIFFE: confirmation obtained in writing on June 27, 2014.

Please note that a separate rule modification is being proposed for the equivalent spot-month position limit, described as the first contract month position limit, in Article 15608 of the Rules of the Bourse. It is our intention that the specific modification relating to the first contract month position limit supersedes the current version of the text in Article 15608.

III. AMENDMENT PROCESS

The drafting process was initiated by the need to formulate a new calculation methodology for establishing position limits on the Government of Canada Bond Futures so as to increase the position limits on the Bourse less liquid Government of Canada Bond Futures from their current levels.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed amendments will have an impact on the technological systems used by the Division to calculate the position limits on Government of Canada Bond Futures.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS TO THE RULES OF THE BOURSE

The objective of the proposed amendment is to formulate a new calculation methodology for establishing position limits on the Bourse's suite of Government of Canada Bond futures. The new methodology should yield position limits that are expected to attract new participants to the markets for the Bourse's less active Government of Canada Bond Futures which should enhance liquidity and price discovery and at the same time mitigate the risks associated with market manipulation of the futures market and the cornering of the underlying market.

VI. PUBLIC INTEREST

The Bourse considers the objectives described above of enhancing liquidity and price discovery while minimizing the risks associated with market manipulation and cornering of the underlying markets to be in the public interest.

VII. PROCESS

The proposed amendment will be presented for approval to the Rules and Policies Committee of the Bourse and will then be submitted to the *Autorité des marchés financiers (AMF)* for self-certification purposes. These modifications will also be transmitted to the Ontario Securities Commission (OSC) for informational purposes.

VIII. ATTACHED DOCUMENT

- Article 15608 of the Bourse's Rules.

15608 Position Limits
(08.09.89, 30.12.93, 07.04.94, 26.08.94, 19.01.95, 03.05.04, 17.04.09, 00.00.00)

The maximum net long or net short position in each designated Government of Canada Bond futures contract which a person may own or control in accordance with article 14157 shall be as follows:

Position limit for all delivery months combined for each designated Government of Canada bond futures contract :

One half of the sum of 20% of the total outstanding deliverables bonds of the front contract month and the greater of 4,000 contracts or 20% of the average daily open interest for all contract months during the preceding three calendar months.~~Equally weighted between the greater of 4,000 contracts, or of 20% of the average daily open interest for all contract months during the preceding three calendar months, **and** 20% of the total outstanding deliverable Government of Canada Bond issues for the front contract month.~~

First contract month position limit:

Effective at the start of trading on the first business day prior to the First Delivery Notice day of the first contract month, the position limit shall be 20% of the open interest of that contract month.

In establishing position limits, the Bourse may apply specific limits to one or more rather than all approved participants or clients, if deemed necessary.