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CIRCULAR
July 24, 2006

**2-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (CGZ)
CHANGES TO THE CONTRACT SIZE, NOTIONAL COUPON AND DELIVERY
STANDARDS – AMENDMENTS TO RULES SIX AND FIFTEEN OF THE BOURSE**

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) approved amendments to articles 6801, 6808, 15003, 15603, 15606 and 15613 of the Rules of Bourse de Montréal Inc. regarding specifications of the 2-year Government of Canada Bond Futures contract (CGZ).

The following changes to the CGZ Futures contract specifications will become effective immediately upon listing on the Bourse of the December 2006 CGZ Futures contract and will be applicable to all subsequent contract months:

- The contract size will be increased from CA\$100 000 to CA\$200 000;
- The notional coupon will be reduced from 6% to 4%;
- The minimum outstanding Government of Canada Bond amount requirement of CA\$3.5 billion nominal value for bonds deliverable for the CGZ Futures contract will be reduced to CA\$2.4 billion nominal value.

It is important to specify that the above-mentioned changes to the specifications of the CGZ Futures contract will not apply to the September 2006 CGZ Futures contract. This contract will retain its current specifications until maturity.

The changes that will be made to the specifications of the CGZ Futures contract should permit market participants to use this contract more efficiently and to make this contract more representative of actual market conditions.

The following approved participants will act as market makers for the CGZ Futures contract::

- CIBC World Markets Inc.
- JP Morgan Securities Canada Inc.
- National Bank Financial Inc.
- TD Securities Inc.
- The Kyte Group Limited (MET Traders, a proprietary trading firm in the United Kingdom, was appointed by The Kyte Group Limited to handle all the issues relating to its market making activities).

Circular no: 136-2006
Amendment no: 005-2006

Herein enclosed are the revised CGZ Futures contract specifications for the December 2006 contract and subsequent contract months. For your information, please also find enclosed the list of deliverable bond issues with respect to the CGZ Futures contracts for December 2006 and subsequent months. This list replaces the one that was distributed on July 6, 2006 (Circular 127-2006).

Finally, market participants should take note that the position limit and the reporting level for the modified CGZ Futures contract will remain unchanged at 4,000 contracts and 250 contracts respectively. For what regards the margin rates applicable to the modified CGZ Futures contract, these rates have been set, until issuance by the Bourse of the next margin update, at CA\$800 for speculators and at CA\$700 for hedgers. Margin rates are updated on a monthly basis by the Bourse.

For further information, please contact Léon Bitton, Vice-President, Research and Development, at (514) 871-3583 or by e-mail at lbitton@m-x.ca.

Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary

Encl.

APPENDIX

**DELIVERABLE GOVERNMENT OF CANADA BOND ISSUES
AND THEIR CONVERSION FACTORS
(as at July 21, 2006)**

TWO-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACTS - CGZ

Government of Canada Bonds		Outstanding	December 2006	March 2007	June 2007	September 2007
Coupon	Maturity	(CAN \$ million)				
3¾%	June 1, 2008	3 000	0.9964	N/A	N/A	N/A
6 %	June 1, 2008	5 010	1.0288	N/A	N/A	N/A
4¼%	September 1, 2008	11 025	1.0041	1.0036	N/A	N/A
4¼%	December 1, 2008	3 900	1.0048	1.0041	1.0036	N/A
5½%	June 1, 2009	6 175	1.0354	1.0319	1.0286	1.0250
4¼%	September 1, 2009	10 100	N/A	1.0059	1.0053	1.0048
TOTAL OUTSTANDING DELIVERABLE BONDS (CAN \$ million)			29 110	31 200	20 175	16 275

Conversion factors computed with a yield equal to 4%

Note: This list is produced in accordance with the Rules of Bourse de Montréal Inc. and of the Canadian Derivatives Clearing Corporation (CDCC).

**D. SPECIAL RULES FOR TRADING
FUTURES CONTRACTS**

**Section 6801 - 6820
Terms of Trade
Futures**

6801 Standard Trading Unit

(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 29.04.02, 14.06.02, 03.05.04, 24.07.06)

No futures contract shall be traded on the Bourse unless it has standardized terms and is issued by the appropriate clearing corporation in cooperation with the Bourse.

Unless otherwise determined by the Bourse, each trading unit shall consist of the following:

- a) in the case of the 30-day overnight repo rate futures:
a nominal value of CAN\$5,000,000.
- b) in the case of the 1-month Canadian bankers' acceptance futures:
a nominal value of CAN\$3,000,000 of 1-month Canadian bankers' acceptances.
- c) in the case of the 3-month Canadian bankers' acceptance futures:
a nominal value of CAN\$1,000,000 of 3-month Canadian bankers' acceptances.
- d) i) in the case of the 2-year Government of Canada Bond futures:
CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%

ii) in the case of the December 2006 2-year Government of Canada Bond futures and for subsequent contract months:
CAN\$200,000 nominal value of a notional Government of Canada Bond bearing a coupon of 4%.
- e) in the case of the 5-year Government of Canada Bond futures:
CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%.
- f) in the case of the 10-year Government of Canada Bond futures:
CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6 %.
- g) in the case of the futures contract on the S&P/TSX 60 Stock Index:
CAN \$200 times the S&P/TSX 60 Stock Index level.
- h) in the case of the futures contract on designated S&P/TSX sectorial stock indices:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

- i) in the case of the futures contract on Canadian and international stocks:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

6808 Price Limits / Trading halts

(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 14.06.02, 03.05.04, 24.07.06)

The Bourse shall establish for each contract a maximum price limit with respect to the previous days settlement price and there shall be no trading above or below that limit except as provided below. Until otherwise determined by the Bourse, the daily price limits shall be as follows:

- a) 30-day overnight repo rate futures: NIL
- b) 1-month and 3-month Canadian bankers' acceptance futures: NIL
- c) Government of Canada Bond futures:

Trading is prohibited during any day at a price higher or lower by more than 3 points, than:

- i) the settlement price for such futures contract on the previous business day; or
- ii) the average of the opening range or the first trade, during the first day of trading in a futures contract; or
- iii) the price established by the Bourse in an inactive contract.
- d) Futures contract on the S&P/TSX 60 Stock Index and futures contract on S&P/TSX sectorial stock indices:

- i) Trading halts

Trading halts on the futures contract on the S&P/TSX Stock Indices shall be coordinated with the trading halt mechanism of the underlying stocks. In accordance with Policy T-3 of the Bourse entitled "Circuit Breaker", a trading halt of the futures contract shall be triggered only in conjunction with the triggering of circuit breakers set in coordination with the New York Stock Exchange and The Toronto Stock Exchange.

- ii) Resumption of Trading

In the event that trading in the securities market resumes after a trading halt, trading in the S&P/TSX Index futures contracts shall resume only after a percentage (as determined by the Bourse from time to time) of the stocks underlying the S&P/TSX Indices have re-opened.

- e) Canadian share futures contract

- i) Trading halts

Trading halts on Canadian share futures contract shall be coordinated with the trading halt mechanism of the underlying stocks. In accordance with Policy T-3 of the Bourse entitled "Circuit Breaker", a trading halt of the futures contract shall be triggered in conjunction with the

triggering of circuit breakers set in coordination with the New York Stock Exchange and The Toronto Stock Exchange.

f) International share futures contract

In the event that a recognized exchange suspends trading in the underlying share of a share futures contract, then the Bourse may determine a course of action in relation to the share futures contract, including, but not limited to, the suspension or halting in the trading of the contract.

**RULE FIFTEEN
FUTURES CONTRACTS SPECIFICATIONS**

15003 Specifications

(24.01.86, 22.04.88, 05.09.89, 16.04.92, 05.08.97, 07.09.99, 22.12.99, 31.01.01, 29.04.02, 14.06.02, 03.05.04, abr. 24.07.06)

15603 Trading Unit

(08.09.89, 05.08.97, 22.12.99, 03.05.04, 24.07.06)

Unless otherwise determined by the Bourse, the unit of trading shall be as defined in article 6801.

15606 Minimum Price Fluctuation Unit

(08.09.89, 17.11.04, 24.07.06)

Price fluctuation units shall be in minimum multiples as defined in article 6807.

15613 Delivery Standards

(08.09.89, 20.11.89, 05.03.90, 01.07.92, 01.10.92, 12.07.94, 19.01.95, 05.08.97, 06.11.97, 22.12.99, 03.05.04, 17.11.04, 24.07.06)

- a) For the 10-year Government of Canada Bond Futures contract shall be deliverable only those Government of Canada bond issues which:
- i) have a remaining maturity of between 8 and 10½ years, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete period of three months, by rounding down to the nearest entire three-month period, e.g. 10 years and seven months shall be considered 10½ years from the first day of the delivery month);
 - ii) have an outstanding amount of \$3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);
 - iii) are originally issued at 10-year auctions (a bond not issued at a 10-year auction which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of \$3.5 billion);
 - iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;
 - v) have a face value at maturity in multiples of CAN \$100,000; and
 - vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.
- b) For the 5-year Government of Canada Bond Futures contract, shall be deliverable only those Government of Canada bond issues which:

- i) have a remaining maturity of between 3 years 6 months and 5 years 3 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 4 years 5 months and 14 days shall be considered 4 years and 5 months from the first day of the delivery month);
 - ii) have an outstanding amount of \$3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);
 - iii) have an original maturity of not more than 5 years and 9 months (an issue which has an original maturity of more than 5 years and 9 months and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of \$3.5 billion, or if it was deliverable in the 10-year Government of Canada Bond Futures contract);
 - iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;
 - v) have a face value at maturity in multiples of CAN \$100,000; and
 - vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.
- c) For the 2-year Government of Canada Bond Futures contract, shall be deliverable only those Government of Canada bond issues which:
- i) have a remaining maturity of between 1 year 6 months and 2 years 6 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 2 years 1 month and 14 days shall be considered 2 years and 1 month from the first day of the delivery month);
 - ii) have an outstanding amount of \$3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);
 - iii) are originally issued at 2-year, 5-year or 10-year Government of Canada bond auctions (a bond which has not been originally issued at a 2-year, 5-year or 10-year Government of Canada bond auction and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of \$3.5 billion);
 - iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;
 - v) have a face value at maturity in multiples of CAN \$100,000; and

- vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.
- d) For the December 2006 2-year Government of Canada Bond Futures contract and for subsequent contract months, shall be deliverable only those Government of Canada bond issues which:
- i) have a remaining maturity of between 1 year 6 months and 2 years 6 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 2 years 1 month and 14 days shall be considered 2 years and 1 month from the first day of the delivery month);
 - ii) have an outstanding amount of \$2.4 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);
 - iii) are originally issued at 2-year, 5-year or 10-year Government of Canada bond auctions (a bond which has not been originally issued at a 2-year, 5-year or 10-year Government of Canada bond auction and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of \$2.4 billion);
 - iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;
 - v) have a face value at maturity in multiples of CAN \$200,000; and
 - vi) have a coupon of 4%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 4% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 4% coupon and selling at par.
- e) The price of a deliverable Government of Canada Bond shall be determined according to the conversion factors tables published by the Bourse.

The conversion factor of a deliverable issue is the actualized value of the deliverable issue to the notional yield of the futures contract considered on the first day of the delivery month, minus the interest accrued until delivery day.

- f) The amount to be paid at delivery is equal to \$1,000 (\$2,000 for the December 2006 2-year Government of Canada Bond Futures contract and for subsequent contract months) multiplied by the conversion factor of the deliverable issue and multiplied by the settlement price of the futures contract being delivered, plus accrued interests to the delivery day. Accrued interest is charged to the approved participant taking delivery.
- g) All Government of Canada Bonds being delivered in respect of a futures contract must be of the same issue.
- h) Before a contract is listed for trading, the Bourse shall have the right to exclude any deliverable Government of Canada bond issue, even if it meets all the standards specified in this Rule.

Specifications

Two-Year Government of Canada Bond Futures Contract (December 2006 and subsequent contract months)

Trading Unit	C\$200,000 nominal value Government of Canada Bond with 4% notional coupon
Contract Months	March, June, September and December.
Price Quotation	Par is on the basis of 100 points, with one point equal to C\$2,000.
Last Trading Day	Trading ceases at 1:00 p.m. (ET) on the seventh business day preceding the last business day of the delivery month.
Contract Type	Physical delivery of eligible Government of Canada Bonds.
Delivery Notices	Delivery notices should be submitted before 5:30 p.m. or before such time set by the clearing corporation on any business day, between the second business day preceding the first business day of the delivery month, and the second business day preceding the last business day of the delivery month inclusively.
Delivery Date	Delivery shall be made on the second business day following the submission of the delivery notice by the member holding a seller's position or on any other day as determined by the clearing corporation. Delivery shall be completed no later than the last business day of the delivery month.
Minimum Price Fluctuation	0.005 = C\$ 10 per contract.
Reporting Level	250 contracts.
Position Limits	Information on position limits can be obtained from Bourse de Montréal Inc. as they are subject to periodic changes.
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodic changes.
Delivery Standards	Government of Canada Bonds which: <ol style="list-style-type: none">have a remaining time to maturity of between 1 year 6 months and 2 years 6 months as of the first day of the delivery month, calculated by rounding down to the nearest whole month period;have an outstanding amount of at least C\$2.4 billion nominal value;are originally issued at two-year, five-year or ten-year Government of Canada bond auctions;are issued and delivered on or before the 15th day preceding the first delivery notice day month of the contract.
Daily Price Limit	Three points per contract above or below the previous day's settlement price.
Trading Hours	<ul style="list-style-type: none">Early session: 6:00 a.m. to 8:05 a.m. (ET)Regular session: 8:20 a.m. to 3:00 p.m. (ET). Curb trading session: The curb trading session begins once settlement prices have been determined and ends at 4:00 p.m. (ET)
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	CGZ

**Two-Year Government of Canada Bond Futures Contract
(Contract months before December 2006)**

Specifications

Trading Unit	C\$100,000 nominal value Government of Canada Bond with 6% notional coupon
Contract Months	March, June, September and December.
Price Quotation	Par is on the basis of 100 points, with one point equal to C\$1,000.
Last Trading Day	Trading ceases at 1:00 p.m. (ET) on the seventh business day preceding the last business day of the delivery month.
Contract Type	Physical delivery of eligible Government of Canada Bonds.
Delivery Notices	Delivery notices should be submitted before 5:30 p.m. or before such time set by the clearing corporation on any business day, between the second business day preceding the first business day of the delivery month, and the second business day preceding the last business day of the delivery month inclusively.
Delivery Date	Delivery shall be made on the second business day following the submission of the delivery notice by the member holding a seller's position or on any other day as determined by the clearing corporation. Delivery shall be completed no later than the last business day of the delivery month.
Minimum Price Fluctuation	0.005 = C\$ 5 per contract.
Reporting Level	250 contracts.
Position Limits	Information on position limits can be obtained from Bourse de Montréal Inc. as they are subject to periodic changes.
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodic changes.
Delivery Standards	Government of Canada Bonds which: <ul style="list-style-type: none"> v) have a remaining time to maturity of between 1 year 6 months and 2 years 6 months as of the first day of the delivery month, calculated by rounding down to the nearest whole month period; vi) have an outstanding amount of at least C\$3.5 billion nominal value; vii) are originally issued at two-year, five-year or ten-year Government of Canada bond auctions; viii) are issued and delivered on or before the 15th day preceding the first delivery notice day month of the contract.
Daily Price Limit	Three points (3 000 \$CA)per contract above or below the previous day's settlement price.
Trading Hours	<ul style="list-style-type: none"> • Early session: 6:00 a.m. to 8:05 a.m. (ET) • Regular session: 8:20 a.m. to 3:00 p.m. (ET). • Curb trading session: The curb trading session begins once settlement prices have been determined and ends at 4:00 p.m. (ET)
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	CGZ