



CIRCULAR 147-23
December 14, 2023

REQUEST FOR COMMENTS

**AMENDMENTS TO THE RULES OF THE BOURSE REGARDING POSITION LIMITS ON CASH SETTLED
INTEREST RATE LISTED PRODUCTS**

On December 1st, 2023, the Self-Regulatory Oversight Committee (“SROC”) of Bourse de Montréal Inc. (the “Bourse”) approved amendments of the Rules of the Bourse (the “Rules”) regarding position limits on cash settled interest rate Listed Products.

Comments on the proposed amendments must be submitted at the latest on January 31st, 2024. Please submit your comments to:

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

M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640 Laurier boulevard, suite 400
Québec (Québec) G1V 5C1
Fax : (514) 864-8381
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. Unless specified otherwise, comments will be published anonymously by the Bourse.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Division in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, 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 by the Autorité. The Regulatory Division of the Bourse (the "Division") is responsible for the regulatory functions of the Bourse and carries on its activities as an independent unit separate from the other activities of the Bourse. The Division's activities are performed under the oversight of the SROC appointed by the Board of Directors of the Bourse.

New rule proposals or amendments to rules pertaining to market integrity (the "Market Integrity Rules") are vested with the Division. Any proposals and amendments to the Market Integrity Rules are presented to the Advisory Committee on Self-Regulation for recommendations before being submitted for SROC's approval. The proposals and amendments are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

**AMENDMENTS TO THE RULES OF THE BOURSE REGARDING POSITION LIMITS ON CASH SETTLED
INTEREST RATE LISTED PRODUCTS**

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I. DESCRIPTION

Currently, the Rules state that position limits on Three-Month Canadian Bankers' Acceptance Futures ("BAX"), Regular Options on Three-Month Canadian Bankers' Acceptance Futures ("OBX"), Three-Month CORRA Futures ("CRA"), One-Month CORRA Futures ("COA"), and any other cash settled interest rate Listed Product (collectively, "Cash Settled Interest Rate Listed Products") are established and published quarterly pursuant to paragraph 6.309B(a). The Division proposes to remove position limits on Cash Settled Interest Rate Listed Products.

II. OUTLINE OF THE AMENDMENTS

The Division proposes to amend paragraph (a) of Article 6.309B (Position Limits for Futures Contracts) of the Rules to remove position limits on Cash Settled Interest Rate Listed Products (the "Proposed Amendments").

The Proposed Amendments are as follows:

- Appendix A—Blackline version of the amendments
- Appendix B—Clean version of the amendments

III. ANALYSIS

a. Background

Prior to amendments regarding position limits that were self-certified on February 2, 2021,¹ the Bourse applied a maximum net long or short number of positions of all contract months combined a Person may own or control at any time (an "All Months Position Limit") on Cash Settled Interest Rate Listed Products as the greater of (i) a fixed number of contracts and (ii) 20% of the average daily open interest for all contract months of the designated cash settled interest rate Listed Product in the preceding three calendar months. The amendments as presented in [Circular 021-21](#) (i) converted the All Months Position Limits to a maximum net long position or net short position for the settlement month of a contract which a Person may own or control at the close of trading on the first business day of the first settlement month (a "spot month position limit") and (ii) modified the calculation as 25% of the average daily open interest for the settlement month of the designated cash settled interest rate Listed Product during the three calendar months preceding the month before the settlement month.

On January 23, 2023, the Bourse listed COA for trading. The current language of paragraph 6.309B(a), intended for Cash Settled Interest Rate Listed Products, does not appropriately reflect the COA's contract specifications and therefore a systematic method of establishing and publishing position limits for COA is not explicitly specified in the Rules. The Division has relied on paragraph 6.310(d) for establishing position limits for COA. Paragraph 6.310(d) entitles the Division to establish and publish or remove position limits on Listed Products with minimal or no open interest or on new Listed Products at the Division's discretion.

The Division is of the opinion that position limits on Cash Settled Interest Rate Listed Products are no longer appropriate given observations since the amendments of [Circular 021-21](#) as described below.

¹ [Circular 021-21](#): Amendments to the Rules of Bourse de Montréal Inc. regarding Position Limits

Furthermore, the Division believes the Proposed Amendments will provide market participants more certainty and clarity on position limits applicable to COA.

b. Objectives

Position limits aim to prevent excessive speculation and manipulation while ensuring sufficient market liquidity for bona fide hedgers and protecting the price discovery process. Setting appropriate position limits is necessary, especially on Listed Products with physical settlement to ensure the open positions do not exceed the actual deliverable supply. The position limits on these Listed Products in turn ensure orderly pricing on the underlying interest and that no market participant corners the market. In the case of Cash Settled Interest Rate Listed Products, there is no delivery of the underlying interest such as the compounded daily Canadian Overnight Repo Rate Average (“CORRA”) during a reference quarter for CRA. Rather, market participants exchange cash in an amount equivalent to the difference between the opening price and the final settlement price of the position. Therefore, the Division believes that there is no risk of cornering the underlying markets of Cash Settled Interest Rate Listed Products.

Further, the open interest in CRA continues to expand and will likely outgrow BAX well before the regulated administrator of Canadian Dollar Offered Rate (“CDOR”) ceases to publish CDOR after June 28, 2024. The Division believes that exceedingly large positions in CRA and COA held into the expiring days have minimal risk of influencing CORRA and the final settlement prices.

Empirically, since the removal of the All Months Position Limits took effect on June 30, 2021,² the Division has not observed any attempt at cornering the market or any other unusual trading activity on Cash Settled Interest Rate Listed Products.

In addition, since the Bourse introduced CRA for trading on June 12, 2020, the Division has applied paragraph 6.310(d) to set a position limit on CRA equivalent to the position limit on BAX. For example, the Division calculated and established a spot month position limit of 47,765 contracts on March 2023 BAX contracts effective March 1, 2023. And although a spot month position limit of 2,543 contracts would have resulted for December 2022 CRA (“CRAZ22”) contracts³ using the same methodology of 25% of the average daily interest for the months from November 2022 to January 2023, the Division established a spot month position limit of 47,765 contracts effective March 1, 2023. Until October 2023,⁴ CRA position limits have therefore been consistently higher than the size of the market itself as a result of the BAX market being larger than the CRA market.

For CRAZ22 contracts, the Division observed a number of market participants with positions above the calculated position limit of 2,543 contracts when the spot month position limit took effect at the close of trading on March 1, 2023. However, the Division did not observe any unusual trading activity arising from instances where positions were held above the calculated position limit. In fact, since CRA contracts have been listed for trading, the Division has not observed any unusual trading activity associated with exceedingly large positions. The Division therefore believes there is sufficient empirical evidence to suggest that position limits on Cash Settled Interest Rate Listed Products have limited value and instead

² [Circular 021-21](#): Amendments to the Rules of Bourse de Montréal Inc. regarding Position Limits

³ Note that CRAZ22 contracts were settled in March 2023.

⁴ In October 2023, CRA open interest surpassed BAX open interest.

impose a regulatory burden in terms of costs and administration associated with monitoring and enforcing such position limits.

The Proposed Amendments will not impede or limit the Division’s ability to monitor the market for manipulation, cornering, or any other situation threatening the integrity or orderly trading of Cash Settled Interest Rate Listed Products. Further, the Division may impose position limits on any Approved Participant or client if deemed necessary to ensure integrity and fairness of the market pursuant to paragraph 6.310(e).

Consequently, the Proposed Amendments will reduce the regulatory burden without compromising the Division’s ability to address a threat which may arise on positions held in Cash Settled Interest Rate Listed Products.

c. Comparative Analysis

In a comparative analysis involving eight different marketplaces and 21 different products comparable to cash settled interest rate Listed Products, the Division notes that only the ASX 24 imposes position limits on two of its products. Notably, these position limits are fixed and only in effect during the last trading day of each contract month. The Proposed Amendments will therefore harmonize with the rules of most international marketplaces.

Marketplace	Product	Position Limit ⁵
CME	1M SOFR futures	None
	3M SOFR futures	None
CBOT	30D Federal Funds futures	None
ICE Futures US	1M SOFR futures	None
	3M SOFR futures	None
ICE Futures Europe	1M ESTR futures	None
	3M Euribor futures	None
	3M SARON futures	None
	1M SOFR futures	None
	3M SOFR futures	None
	1M SONIA futures	None
	3M SONIA futures	None
Eurex	3M ESTR futures	None
	3M Euribor futures	None

⁵ Some marketplaces may impose an accountability level limit.

Marketplace	Product	Position Limit ⁵
	3M SARON futures	None
ASX 24	30D Interbank Cash Rate futures	None
	Australian 90D Bank Bill futures	20,000 contracts ⁶ (applies to spot month net open positions at the close of trading on the day before expiry)
	New Zealand 90D Bank Bill futures	17,500 contracts ⁷ (applies to spot month net open positions at the close of trading on the day before expiry)
HKEX	1M HIBOR futures	None
	3M HIBOR futures	None
TFX	3M TONA futures	None

d. Analysis of Impacts

i. Impacts on Market

The Proposed Amendments will reduce the regulatory burden on market participants that have limited value compared to the cost and administration associated with monitoring and enforcing position limits on Cash Settled Interest Rate Listed Products. The Proposed Amendments will also relieve market participants from unnecessarily unwinding positions to comply with the position limits. Consequently, the Division believes that the Proposed Amendments prevent disorderly trading that would otherwise result around the time spot month position limits would be in effect and further promote the growth in COA and CRA.

ii. Impacts on Technology

The Proposed Amendments have no impact on the technological systems of the Bourse, the Canadian Derivatives Clearing Corporation (“CDCC”), Approved Participants, independent software vendors, or any other market participant. The Bourse has not identified any impediments, whether technical, operational or other, to the implementation of the Proposed Amendments.

iii. Impacts on Regulatory Functions

The Proposed Amendments will not impact the Division’s regulatory functions as the Division will continue to monitor and supervise activities on Cash Settled Interest Rate Listed Products, and may intervene when deemed necessary given a market event or a market participant’s position. Approved Participants will continue to file reports of accumulated positions which will also allow the Division to monitor large open positions on Cash Settled Interest Rate Listed Products. The Proposed Amendments will relieve the

⁶ The open interest of Australian 90D Bank Bill futures expiring in March 2023 was 124,937 contracts on the day prior to the settlement day. The position limit was therefore effectively 16% of the open interest.

⁷ The open interest of New Zealand 90D Bank Bill futures expiring in March 2023 was 49,393 contracts on the day prior to the settlement day. The position limit was therefore effectively 35.4% of the open interest.

Division from the administrative process of establishing and publishing position limits on Cash Settled Interest Rate Listed Products.

iv. Impacts on Clearing Functions

The Proposed Amendments have no impact on the clearing functions of the CDCC.

v. Impacts on Compliance with Laws

The Proposed Amendments have no impact on the compliance, supervision and reporting rules on the Bourse. Approved Participants must comply with the Rules of the Bourse and are subject to the oversight of the Division. Approved Participants must at all times adhere to the principles of good business practice in the conduct of their affairs.

vi. Public Interest

The Proposed Amendments are in line with the aim of the Bourse and the Division to maintain the Rules by amending requirements to reflect best practices and the evolution of the marketplace. By proposing to remove the position limits on Cash Settled Interest Rate Listed Products, the Proposed Amendments will reduce a regulatory burden on market participants which is deemed to have little value in deterring inappropriate market behaviour on Cash Settled Interest Rate Listed Products. The Proposed Amendments will not impact the Division's regulatory functions to provide effective market surveillance and ability to intervene when necessary. For these reasons, the Division considers that the Proposed Amendments are in the public interest.

APPENDIX A—BLACKLINED VERSION OF THE AMENDMENTS

Article 6.309B Position Limits for Futures Contracts

Except as otherwise indicated and except for Share Futures Contracts, the applicable position limits for Futures Contracts are as follows:

- (a) Cash Settled Interest Rate Futures:

There are no position limits on Cash Settled Interest Rate Futures.

~~The maximum net Long Position or net Short Position for the Settlement Month of a quarterly Cash Settled Interest Rate Futures Contract which a Person may own or control at the close of trading on the first business day of the first Settlement Month is equal to 25% of the average daily Open Interest for the Settlement Month of the designated Cash Settled Interest Rate Futures Contract during the three calendar months preceding the month before the Settlement Month. Same position limits are applicable to serial contracts, if any, of the two months following the Settlement Month. These position limits are established and published by the Bourse on a quarterly basis.~~

APPENDIX B—CLEAN VERSION OF THE AMENDMENTS

Article 6.309B Position Limits for Futures Contracts

Except as otherwise indicated and except for Share Futures Contracts, the applicable position limits for Futures Contracts are as follows:

- (a) Cash Settled Interest Rate Futures:

There are no position limits on Cash Settled Interest Rate Futures