



CIRCULAR 164-21
September 21, 2021

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE MINIMUM PRICE FLUCTUATION OF THE FRONT MONTH THREE-MONTH CORRA FUTURES (CRA) CONTRACT

On September 14, 2021, the Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) approved amendments to the Rules of the Bourse to modify the minimum price fluctuation of the Three-Month CORRA Futures (CRA).

Comments on the proposed amendments must be submitted at the latest on **October 21, 2021**. 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
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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 Bourse, 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 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, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).



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I. DESCRIPTION

Bourse de Montréal Inc. (the “Bourse”) hereby proposes to update its rules pertaining to the minimum price fluctuation on the Three-Month CORRA Futures (CRA) to help stimulate more activity in the contract. The Bourse considers that a well-functioning CRA market is desirable for the growth of its short-term interest rate (STIR) product offering and strives to ensure that its contract design is in line with the needs of market participants. Therefore, the Bourse proposes to change the minimum price fluctuation of the CRA contract as part of its efforts to develop this product. Specifically, the Bourse proposes to reduce the minimum price fluctuation of the nearest listed CRA contract month to 0.0025, representing C\$6.25 per contract. The Bourse believes that this proposed amendment will increase price transparency, enhance the trading experience on the contract and benefit the entire marketplace.

II. PROPOSED AMENDMENTS

The Bourse proposes to modify article 12.1905 of its rules to change the minimum price fluctuation of the nearest listed CRA contract month from 0.005 = C\$12.50 to 0.0025 = C\$6.25.

The smaller price fluctuation in the nearest listed contract was considered in the original product specifications of the CRA contract but the rules were drafted in a more general way, therefore not reflecting this particularity clearly enough. This modification aims to better reflect the market dynamics of short-term interest rate products, especially given the way the final settlement price is determined for the CRA contract. This proposal was drafted based on consultations with market participants having an interest in developing the CRA futures and should improve the efficiency of the CRA contract as a trading and hedging instrument, providing an increased number of tradable price points.

III. ANALYSIS

a. Background

The Bourse introduced the CRA contract in June 2020. The product specifications described in the self-certification documents¹ distinguished the minimum price fluctuation in the nearest contract month from the other contract months, but this difference was articulated less clearly in the rules.

Wording in the rules:

Minimum Price Fluctuation: Unless otherwise determined by the Bourse, the minimum price fluctuation for a Three-Month CORRA Futures is 0.005, representing \$12.50 per contract, for all contract months.

¹ https://m-x.ca/f_circulaires_en/102-20_en.pdf

Wording in the product specification:

Minimum Price Fluctuation: 0.005 = C\$12.50 for all quarterly contracts. Note that the minimum price fluctuation for the nearest quarterly contract will be 0.005 = C\$12.50 until further notice. The Bourse expects to change this minimum price fluctuation to 0.0025 = C\$6.25 in the coming months.

In the months following the CRA product launch, the Bourse undertook significant efforts by reaching out to key independent software vendors (“ISVs”) and market participants. The idea was to ensure a smooth rollout of the reduced minimum price fluctuation (0.0025) for the nearest contract month, as it contains one decimal more than the usual 3 decimals they are accustomed to in order to support the Bourse’s products. In fact, the addition of a fourth decimal to the tick size structure of the Bourse’s products has led to some internal developments for which enhancements were introduced to the new diffusion protocols and made available to participants in May 2020.² The Bourse subsequently assisted the main ISVs in their migration to these new diffusion protocols in the following months.

Additionally, the final settlement price calculation methodology of the CRA contracts renders the price of the contract less volatile as it approaches its expiry date, which serves as another argument in favor of a smaller minimum price fluctuation as the contract matures.

Specifically, the final settlement price is determined on the basis of realized CORRA values during the contract reference quarter, which shall be the interval from (and including) the third Wednesday of the third month preceding the settlement month, until (but not including) the third Wednesday of the settlement month. The expiry date of a CRA futures contract is the first business day following the end of its reference quarter. Therefore, a CRA contract is referred to as backward-looking, because its final settlement price is path-dependent.

Example of for a September 2021 CRA futures contract:

- Contract Month: September 2021
- Symbol: CRAU21
- Reference period: September 15, 2021 to December 14, 2021 inclusively
- Expiry date: December 15, 2021
- Final Settlement Price: Based on CORRA values during the Reference period

b. Objectives

The objective of the proposed amendment is to update the article of the rules related to the minimum price fluctuation of the CRA futures, allowing the Bourse to modify the tick size of the nearest contract month to a smaller increment. This provision was already stated in the product specifications but the Bourse aims to make its rules consistent with this mention, so that there is no ambiguity as to its interpretation and implementation. The Bourse believes that this modification is required to help the market develop the short-end of the listed yield curve. The

² https://www.m-x.ca/f_avis_tech_en/20-001_en.pdf

Bourse intends to provide the market with an attractive CRA futures contract offering that meets the needs of its initial supporters, in an effort to grow volume and open interest.

A smaller tick size for the nearest CRA contract months should lead to more activity on the best bids and offers and, ultimately, to more volume as the contract approaches its expiry date. The proposed modification should help build liquidity in the nearest CRA contract month and should benefit the entire CRA contract development.

The Bourse believes this amendment remains consistent with its objective to:

- 1) provide market participants with an efficient price discovery mechanism and hedging tool;
- 2) strengthen the functioning of the Canadian derivatives market; and
- 3) better serve the interests of market participants.

c. Comparative Analysis

The modification of the minimum price fluctuation is in line with the tick size structure of other risk-free rate futures contracts. The two comparable products, the three-month SOFR futures at CME and the three-month SONIA futures at ICE, have a smaller minimum price fluctuation increment for the nearest contract month. The Bourse believes that having a similar structure to those equivalent international products is relevant and will facilitate market acceptance.

Table 1: CRA futures contracts compared to 3M SOFR and SONIA based futures contracts

Product specification	3M CORRA (MX) - proposed	3M SOFR (CME)	3M SONIA (ICE)
Minimum price fluctuation	Nearest quarterly contract: 0.0025 = C\$6.25 All other quarterly contracts: 0.005 = C\$12.50	Contracts with four months or less until expiry: 0.0025 = US\$ 6.25 All other contracts: 0.005 = US\$12.50	Front quarterly: 0.0025 = £6.25 All other months: 0.005 = £12.50

Source: Exchange websites

Based on this international benchmarking, the Bourse considers that the proposed modification is justified and represents an opportunity to better serve the needs of market participants.

d. Analysis of Impacts

i. Impacts on Market

The Bourse believes the impact on market participants will be minimal as there is currently limited volume and open interest in the CRA contract. The proposed modification aims to develop an attractive CRA contract and support the Bourse's efforts to develop a complete listed yield curve offering, bringing market transparency and trading efficiency benefits to domestic and global

market participants. Finally, the proposed tick size for the nearest CRA contract month is the same as what is currently in effect for similar contracts at other exchanges, suggesting that participants trading global products are already accustomed to this pricing structure.

ii. Impacts on Technology

In order to implement the proposed rule amendments, the Bourse was required to make some enhancements to its internal systems and diffusion protocols, so that a minimum price fluctuation with four decimals could be supported. This was completed in early 2020 and, since the release, the Bourse has worked with industry members to make sure this feature could be supported by ISVs and other key market participants. At this stage, 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 proposal has no impact on the supervision, surveillance nor the reporting requirements of the Bourse.

iv. Impacts on clearing functions

The proposed changes should have no impact on the clearing functions of CDCC, on CDCC's Rules and Operations Manual, nor on CDCC's Clearing Members, or other Industry participants dealing with CDCC.

v. Public Interest

The Bourse considers these amendments to be in the interest of the public as they intend to improve the specifications of the CRA contract in order to help the product develop. A listed contract that meets participants' needs has a higher probability of being more appealing and of bringing more activity to the transparent and centrally-cleared futures market. The Bourse believes the updated minimum price fluctuation is in line with market expectations and will encourage more engagement on the electronic market.

IV. PROCESS

The drafting process was initiated by the desire of the Bourse to review the rule article related to product specifications of the CRA contract. The Bourse believes that a more appropriate minimum price fluctuation is needed to help generate interest and foster activity in the nearest CRA contract month.

The proposed amendments, including this analysis, must 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 purposes

V. ATTACHED DOCUMENTS

Proposed amendments to the Rules of the Bourse.

ANNEX 1 - PROPOSED AMENDMENTS

AMENDED VERSION

[...]

Article 12.1905 Minimum Price Fluctuation

Unless otherwise determined by the Bourse, the minimum price fluctuation for a Three-Month CORRA Futures is ~~0.005, representing \$12.50 per contract, for all contract months.~~ **as follows:**

- (a) For the nearest listed contract month, the minimum price fluctuation is 0.0025, representing \$6.25 per contract.**
- (b) For all other contract months, the minimum price fluctuation is 0.005, representing \$12.50 per contract.**

CLEAN VERSION

[...]

Unless otherwise determined by the Bourse, the minimum price fluctuation for a Three-Month CORRA Futures is as follows:

- (a) For the nearest listed contract month, the minimum price fluctuation is 0.0025, representing \$6.25 per contract.
- (b) For all other contract months, the minimum price fluctuation is 0.005, representing \$12.50 per contract.