☒	Trading – Interest Rate Derivatives	☐	Back-office - Options
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CIRCULAR
December 18, 2012

SELF-CERTIFICATION

TWO-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (CGZ)

AMENDMENTS TO ARTICLE 6801 OF RULE SIX AND TO ARTICLE 15613 OF RULE FIFTEEN OF BOURSE DE MONTRÉAL INC.

ABROGATION OF OBSOLETE REGULATORY PROVISIONS REGARDING THE STANDARD TRADING UNIT AND DELIVERY STANDARDS

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved the amendments to Article 6801 of Rule Six and to Article 15613 of Rule Fifteen of the Bourse in order to eliminate provisions in the Bourses' Rules that are now obsolete. The Bourse wishes to advise Approved Participants that such amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

Amendments to Rule Six and Rule Fifteen of the Bourse, which you will find enclosed, are effective on **December 18, 2012**. Please note that amended versions of the rules of the Bourse are available on the Bourse's website (www.m-x.ca).

For further information, please contact Pauline Ascoli, Vice-President, Legal Affairs, Derivatives, at 514 871-3528 or at pascoli@m-x.ca.

Pauline Ascoli
Vice-President, Legal Affairs, Derivatives
Bourse de Montréal Inc.

Circular no.: 175-2012

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ABROGATION OF OBSOLETE REGULATORY PROVISIONS REGARDING THE STANDARD TRADING UNIT AND DELIVERY STANDARDS

The Two-Year Government of Canada Bond Future Contract ("**CGZ**") was listed by Bourse de Montréal Inc. (the "**Bourse**") on May 3, 2004[1]. At that time, the CGZ contract size was C$100,000 with a notional coupon of 6%. The CGZ had been introduced in an effort to extend the Bourse's product coverage of the Government of Canada ("**GoC**") yield curve, thereby providing approved participants and their clients with increased spread trading opportunities.

On November 17, 2004[2], the Bourse amended the delivery terms by:

1. Including originally issued 10-Year GoC bonds in the basket of deliverables due to the limited amount outstanding of 2-year GoC bond issues; and

2. By reducing the minimum price fluctuation from C$0.01 to C$0.005.

On July, 24 2006[3], the Bourse modified the contract size from C$100,000 to C$200,000 for cost effectiveness considerations and to harmonize the contract size with international peer contracts (CBOT). The notional coupon was also reduced from 6% to 4% and the minimum amount outstanding for GoC bond eligible for inclusion in the basket of deliverables was reduced from C$3.5 billion to C$2.4 billion.

Finally, on September 1[4], 2010, the Bourse:

1. Changed the notional coupon rate of the CGZ contract from 4% to 6%, and

2. Excluded 5-year and 10-Year GoC bonds from the basket of deliverable bonds.

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[1] See circular No. 051-2004 published by the Bourse on April 20, 2004 at http://www.m-x.ca/f_circulaires_en/051-04_en.pdf

[2] See circular No. 150-2004 published by the Bourse on November 17 2004 at http://www.m-x.ca/f_circulaires_en/150-04_en.pdf

[3] See circular No. 136-2006 published by the Bourse on July 24, 2006 at http://www.m-x.ca/f_circulaires_en/136-06_en.pdf

[4] See circular No. 105-2010 published by the Bourse on August 30, 2010 at http://www.m-x.ca/f_circulaires_en/105-2010_en.pdf

These amendments, which applied to the December 2010 and subsequent expiries of the CGZ future contract, were supported by the following considerations:

A. Increase of the coupon rate of the CGZ contract from 4% to 6% in order to:
   - Harmonize the notional coupon rate of the CGZ with the notional coupon rates of the other GoC bonds futures contracts listed on the Bourse (CGF, CGB and LGB);
   - Harmonize the notional coupon rate of the CGZ with main international peer contracts;
   - Facilitate contract pricing.

B. Exclusion of the 5-year and 10-Year GoC bonds from the basket of deliverable bonds in order to:
   - Remove illiquid issues (5-year and 10-year), especially when they are the cheapest-to-deliver bond as these bonds are difficult to get a hold of in the cash market, and
   - Facilitate basis trades.

In connection with these latest changes, the Bourse amended articles 6801 (Standard Trading Units) and 15613 (Delivery Standards) of its Rules in order to distinguish expiries prior to December 2010 from the December 2010 and subsequent expiries

Thus, paragraph e) of article 6801 is subdivided into subparagraphs i) and ii) in order to distinguish the 4% notional coupon rate applicable to the CGZ contract expiries that are prior to the December 2010 expiry from the 6% notional coupon rate that is applicable to the December 2010 and subsequent expiries. For what regards article 15613, paragraph c) of this article sets the delivery standards that are applicable to CGZ contract expiries prior to December 2010 while paragraph d) sets de delivery standards that are applicable to the December 2010 and subsequent expiries.

I. PROPOSED REGULATORY AMENDMENTS

Provisions of articles 6801 and 15613 applicable to expiries prior to December 2010 now being obsolete, the Bourse proposes to abrogate these provisions and more particularly to abrogate subparagraph i) of paragraph e) of article 6801 of the Rules of the Bourse, to abrogate paragraph c) of article 15613 of the Rules of the Bourse and to delete from the concerned paragraphs any reference to a specific expiry.

II. OBJECTIVE OF THE PROPOSED AMENDMENTS TO THE RULES OF THE BOURSE

The proposed amendments will allow the Bourse to eliminate from its Rules provisions that are now obsolete.

III. PUBLIC INTEREST

The proposed amendments to articles 6801 and 15613 of the Rules of the Bourse will have no impact on the market, the participants to this market and the public in general. They will also have no impact on the systems used by the Bourse, the approved participants and their customers.

IV. PROCESS

The proposed amendments to Rules Six and Fifteen are submitted for approval to the Rules and Policies Committee of the Bourse and will then be transmitted to the *Autorité des marchés financiers* (the "**AMF**") in accordance with the self-certification process and to the Ontario Securities Commission for information.

The AMF has already confirmed to the Bourse that the proposed amendments can be considered as being housekeeping amendments and that as such they are exempted from the requirements of the *Derivatives Regulation* regarding their publication by the Bourse of a request for comments. Therefore, the proposed amendments will become subject to self-certification immediately upon having been approved by the Rules and Policies Committee of the Bourse.

V. ATTACHED DOCUMENTS

- Rule Six - Article 6801 – Standard Trading Units
- Rule Fifteen - Article 15613 - Delivery Standards

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, 16.11.07, 30.05.08, 15.05.09, 18.06.10, 01.09.10, 01.10.10, 06.05.11, 16.02.12, 00.00.00)

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 Overnight Index Swap futures:

a nominal value of CAN$5,000,000.

c) 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.

d) 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.

e) ~~i)~~ in the case of 2-year Government of Canada Bond futures ~~expiring before December 2010~~:

CAN$200,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6~~4~~%.

~~ii) in the case of the December 2010 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 6%.~~

f) 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%.

g) 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%.

h) in the case of the 30-year Government of Canada Bond futures:

CAN$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%.

i) in the case of the futures contract on the S&P/TSX 60 Index:

i) in the case of standard futures contracts on the S&P/TSX 60 Index: CAN $200 times the S&P/TSX 60 Index standard futures contract level; and

ii) In the case of mini futures contracts on the S&P/TSX 60 Index: CAN $50 times the S&P/TSX 60 Index mini futures contract level.

j) in the case of the mini futures contract on the S&P/TSX Composite Index:

CAN $5 times the level of the S&P/TSX Composite Index mini futures.

k) in the case of the futures contract on designated S&P/TSX sectorial 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.

l) 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.

m) in the case of the futures contract on carbon dioxide equivalent (CO_2e) units with physical settlement:

100 carbon dioxide equivalent (CO_2e) units. Each unit is an entitlement to emit one metric ton of carbon dioxide equivalent (CO_2e).

n) in the case of the futures contract on carbon dioxide equivalent (CO_2e) units with cash settlement:

100 carbon dioxide equivalent (CO_2e) units. Each unit is an entitlement to emit one metric ton of carbon dioxide equivalent (CO_2e).

o) in the case of the futures contract on designated Canadian Crude Oil:

1,000 U.S. barrels.

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, 16.11.07, 01.09.10, 05.11.10, 00.00.00)

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 periods 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) are originally issued at 5-year Government of Canada bond auctions (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);

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 expiring before December 2010, 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.~~

c~~d~~) For the ~~December 2010~~ 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 Government of Canada bond auctions (a bond which has not been originally issued at a 2-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 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.

de) For the 30-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 21 and 33 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 periods of three months, by rounding down to the nearest entire three-month period, e.g. 30 years and seven months shall be considered 30½ 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 30-year auctions (a bond not issued at a 30-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.

e~~f~~) 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~~g~~) The amount to be paid at delivery is equal to $1,000 ($2,000 for the 2-year Government of Canada Bond Futures contract) 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~~h~~) All Government of Canada Bonds being delivered in respect of a futures contract must be of the same issue.

h~~i~~) 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.