

**REQUEST FOR PROPOSAL**  
for the market making of Options on Three-Month  
Canadian Bankers' Acceptance Futures (OBX)

Issued by the Montréal Exchange – Fixed Income Derivatives  
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## Introduction and Purpose of the Request for Proposal

Bourse de Montréal Inc. (the “Bourse”) is pleased to announce the creation of a new market making incentive program for Options on Three-Month Canadian Bankers' Acceptance Futures (OBX), beginning in February 2013.

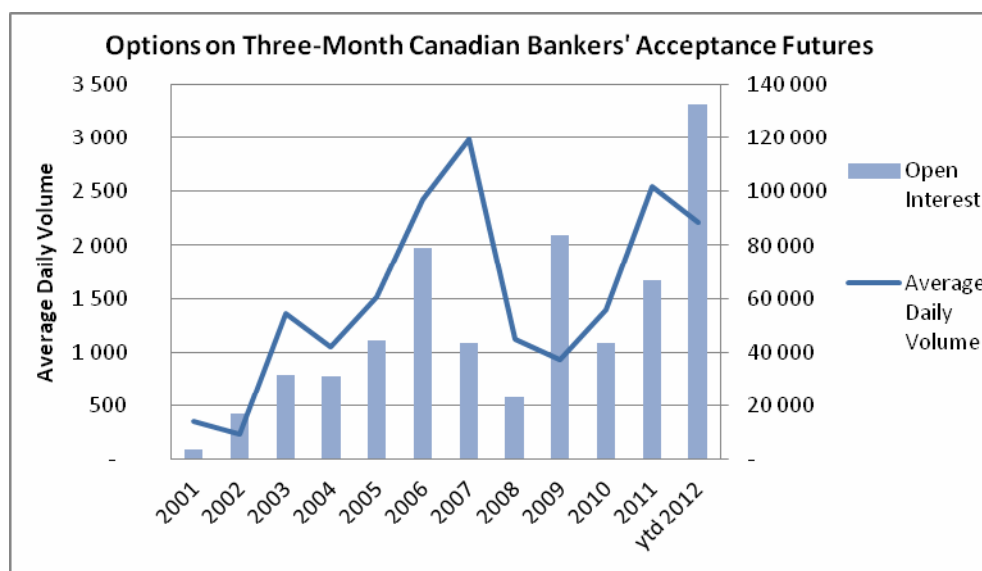
All approved participants (“APs”) and foreign approved participants (“FAPs”) interested in participating in the program are requested to submit a proposal (“Proposal”) addressing the items (the “criteria”) outlined in Table 1.

Candidates will be evaluated on the quality of their proposals, as well as their standing with the Bourse and their compliance with the rules and procedures of the Bourse.

## Background

### a. History

OBX options were first listed in 1994. While the quality of OBX’s performance has varied over time, in the first half of 2011, OBX experienced the world’s biggest rise in trading volumes as reported by Futures and Options Intelligence, with volume up 132% by the end of June.



Source: Bourse de Montréal Inc.

Since its inception, OBX has experienced modest growth in comparison to its international peer short-term interest rate options (“STIR”) contracts. While trading

volumes have grown, the contract has not yet attained its full potential in terms of the depth and liquidity needed to accommodate some of the expressed client demand.

The Bourse has pursued various avenues in an effort to develop liquidity on OBX in the past, including fee waiver and profit-sharing initiatives, which have had limited success. The lessons learned from these endeavours have enabled the Bourse to design the innovative market making program being presented here, which is expected to provide domestic and international participants the liquidity they are looking for to start actively trading OBX.

## b. Opportunity

In addition to the requests from existing and prospective participants demanding enhanced market support and greater liquidity, the OBX contract remains underdeveloped in relation to its peers.

The evolution of a options on futures' contract is measured by the percentage of options traded relative to the amount of underlying futures traded. As demonstrated in the following table, it is apparent that OBX is positioned for strong future growth.

Exchange	Product	Average Daily Volume Futures		Average Daily Volume Options		Options/Futures Volume Ratio	
		2011	2012 YTD	2011	2012 YTD	2011	2012 YTD
CME	Eurodollars	2,238,439	1,760,514	400,219	219,335	18%	12%
Euronext	Euribor	941,443	700,829	557,526	294,823	59%	42%
Euronext	Sterling	449,754	461,817	130,175	36,756	29%	8%
<b>MX</b>	<b>OBX</b>	<b>83,798</b>	<b>85,588</b>	<b>2,550</b>	<b>2,189</b>	<b>3%</b>	<b>3%</b>

Source: Bourse de Montréal Research and Development

While the Bank of Canada's Overnight Rate has remained steady at 1% for the past two years, it is becoming less and less likely that this trend will continue, and this leaves participants exposed to greater and greater interest rate risk as time goes on. Having the appropriate market making support will not only enable participants to better manage this risk, but it will also provide opportunities for tactical participants to make plays in the OBX market.

In addition to OBX's growth potential, this initiative is being introduced in support of the Yield Curve Project launched by the Bourse in July of 2011. Greater participation in the OBX market will in turn translate to improvement in liquidity on Three-Month

Canadian Bankers' Acceptance Futures (BAX), bringing the Bourse even closer to achieving its mandate: the development a full sovereign futures curve.

## **Program**

### **a. Process Description:**

Following the expiration of the Request for Proposal ("RFP"), candidates will be evaluated by a committee (the "committee") according to a prescribed set of criteria (the "criteria").

### **b. Number of market makers:**

A total of three to five candidates may be selected, provided that each satisfies the minimum requirements set forth in the RFP. In the event that the number of qualified applicants exceeds the prescribed amount, the committee will determine how many candidates to select.

### **c. Eligibility:**

- Approved Participants ("APs") of the Bourse;
- or
- Foreign Approved Participants ("FAPs") of the Bourse.

### **d. Incentives:**

#### **i. Fixed Compensation:**

1. Should three (3) Market Makers be selected, each will receive \$100,000 per year, for a two year period paid on a monthly basis (\$8,333.33 per month). Payment of the fixed compensation will be conditional upon meeting the minimum requirements set forth in the agreement.
2. Should four (4) Market Makers be selected, each will receive \$75,000 per year, for a two year period paid on a monthly basis (\$6,250.00 per month). Payment of the fixed compensation will be conditional upon meeting the minimum requirements set forth in the agreement.
3. Should five (5) Market Makers be selected, each will receive \$60,000 per year, for a two year period paid on a monthly basis (\$5,000.00 per month). Payment of the fixed compensation will be conditional upon meeting the minimum requirements set forth in the agreement.

ii. Variable Compensation:

The Market Makers will receive 20% of the Bourses' net trading revenues allocated on a pro-rated basis for a period of 5 years, for any additional trading volumes above the current average daily volume of 2,000 contracts.

iii. Execution fee reimbursement:

The Market Makers will be reimbursed for any execution fees related to their market making activities on OBX.

*Note: Eligibility for the compensation and fee reimbursement is based on meeting the minimum requirements set forth in Section f.*

**e. Duration of the contract:**

Five (5) years

**f. Market Making Selection Criteria:**

i. Technology

The quality of a Market Maker's activities relies heavily on the sophistication of their technology. Candidates possessing superior capabilities will be awarded an advantage during the selection process.

ii. Capitalisation

In order to satisfy the current client demand, it is necessary for the Market Makers to be adequately capitalised, and to be capable of supporting the growth of the market.

iii. Experience

Prior fixed income market making experience will be considered instrumental to the success of the project.

iv. Additional Criteria

Candidates proposing to exceed any of the requirements, and those proposing to quote mid-curve options on the BAX, will gain a favourable standing in the selection process.

**g. Market Making Requirements:**

- i. Length of day: Market Makers will be required to quote 80% of the time from 8:00 a.m. to 4:00 p.m.
- ii. Contract settlement: Market Makers will be required to quote continuously from 2:30 p.m. to 3:00 p.m. every day in order to ensure orderly contract settlement.
- iii. Line quoting requirements:
  - 4 nearest months
  - 1 at-the-money
  - 2 in-the-money
  - 2 out-the-money
- iv. Minimum size: Each market maker will be required to post a minimum size of 500 contracts on both the bid and the offer on the designated lines outlined in Section g.ii.
- v. Maximum spread: Market Makers will be required to post markets at a maximum spread of 2 ticks.

*Note: The above criteria outline the minimum requirements. Candidates proposing to exceed any of the requirements (size, spread, early session, mid-curve options) will gain a favourable standing in the selection process.*

**Request for Proposal (RFP) Procedure**

**a. Confirmation of Receipt and Delivery of Proposal**

Please acknowledge receipt of this RFP via email (to the undersigned address), on or before 5:00 p.m. EST on December 17, 2012.

**b. Contact**

Kindly submit questions by email to the following contact person:

Joanne Elkaim  
 Director, Fixed Income Derivatives  
 Phone: (514) 871-7891  
 Email: [jelkaim@m-x.ca](mailto:jelkaim@m-x.ca)

**c. Timeframe**

December 11, 2012	Distribution of RFP
December 18, 2012	Questions must be submitted
December 21, 2012	The Bourse will respond to questions
January 7, 2013	Deadline for submitting proposals (or, at a later date as determined by the Bourse)
January 10, 2013	Notification of selected Market Makers
January 24, 2013	Deadline for submitting Market Maker Agreements
February 1, 2013	Launch of market making activities

**d. Information Table**

The RFP evaluation process will focus on the Proposals submitted in response to the items described in the body of this RFP. When preparing a Proposal, please refer to the attached information table (page 10).

**Disclosure**

All documents submitted by respondents shall become the property of the Bourse. The information contained in the Proposals is proprietary and shall therefore be treated as confidential.

**Conflicts**

The respondents shall reference in their Proposal any potential conflicts of interest, perceived or otherwise, between the respondent and the Bourse, or its participants.

**Evaluation**

The objective of the evaluation process is to identify the Proposals that, under the discretion and assessment of the Bourse, most effectively meet the criteria provided for in this RFP. Candidates desiring to improve their standing are encouraged to exceed the minimum criteria outlined in the RFP. Proposals considered most beneficial to the Bourse's market participants will be viewed favorably in the selection process.

While all criteria constitute important elements to the selection process, respondents should recognise, and are deemed to acknowledge that, the steering committee has the right to consider any and all elements relevant to the evaluation.



## General Terms and Conditions

1. The issuance of this RFP to any prospective respondent shall not cause any express nor implied commitment or undertaking on the part of the Bourse and the Bourse is under no obligation or commitment to accept any Proposal.
2. The Bourse shall not be liable for any fees, costs or expenses incurred by the respondent resulting from this RFP or from any other request.
3. Respondents shall not disclose their Proposal or elements of their Proposal to third parties without the prior written consent of the Bourse.
4. The Bourse might cancel, amend or withdraw this RFP at its own discretion and without prior notice.
5. Proposals received after the deadline for Proposal submissions will only be accepted at the discretion of the Bourse.
6. All Proposals shall be binding for a period of thirty (30) days following the closing date. Should a respondent wish to alter or amend a Proposal, it is to be withdrawn by letter and a new Proposal is to be submitted prior to the deadline for Proposal submissions.
7. The respondent may revoke its Proposal at any time prior to the closing of the request by delivering written notice via email to [jelkaim@m-x.ca](mailto:jelkaim@m-x.ca)
8. The selected Market Makers will be required to sign a market making agreement ("MMA") with the Bourse prior to being admitted into the Program. The Bourse shall only accept to sign an MMA with an AP, or FAP in good standing and in compliance with the rules and procedures of the Bourse.
9. The selected Market Makers will be required to process their market making transactions through a sub-account with the Canadian Derivatives Clearing Corporation (CDCC). Either a new or an existing sub-account can be used for this purpose.

**Table 1**

Information Requested	Response
<b>GENERAL CORPORATE INFORMATION</b>	
Company name	
Company address	
<b>RFP contact information:</b>	
Name and title	
Telephone number	
Email address	
Company division	
AP or FAP	
Able to open sub-account	
Exchanges memberships	
Staffing – name and number	
• Traders	
• Programmers	
<b>TECHNOLOGY/OPERATIONS/RISK MANAGEMENT</b>	
Description of automation capabilities	
Trading tools	
Name(s) of Independent Software Vendors (ISVs)	
Description of risk management tools	
Additional risk safeguards	
<b>CAPITALISATION/FINANCIAL INFORMATION</b>	
Market Making capital	
Balance sheet	
Risk budget	
<b>OPTION MARKET MAKING EXPERIENCE</b>	
Number of years market making	
Description of experience	
<b>SIZE AND SPREAD COMMITMENT</b>	
Minimum number of contracts	
Maximum spread of markets	

