☒	**Trading – Interest Rate Derivatives**	☒	**Back-office - Options**
☒	**Trading – Equity and Index Derivatives**	☒	**Technology**
☒	**Back-office – Futures**	☒	**Regulation**

CIRCULAR 020-18
February 7, 2018

SELF-CERTIFICATION

MODIFICATIONS TO THE CONTRACT SPECIFICATIONS FOR THE THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACT PERTAINING TO MINIMUM PRICE FLUCTUATION

AMENDMENTS TO ARTICLE 15506 OF THE RULES OF BOURSE DE MONTRÉAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") has approved amendments to article 15506 of Rule 15 of the Bourse in order to modify the contract specifications of the three-month Canadian Bankers' acceptance futures (BAX) pertaining to minimum price fluctuation. These amendments, as attached, were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (CQLR, Chapter I-14.01).

These amendments, as attached, will become effective on **March 15, 2018,** after market close. Please note that this article will also be available on the Bourse's website (www.m-x.ca).

The rule changes described in the present circular were published for public comment by the Bourse on November 14, 2017 (See Circular 162-17). Further to the publication of this circular, the Bourse has received comments. A summary of the comments received as well as responses from the Bourse to these comments is attached hereto.

For additional information, please contact Robert Tasca, Director, Interest Rate Derivatives & Client Solutions, by telephone at 514-871-3501 or by email at Robert.tasca@tmx.com.

Alexandre Normandeau
Legal counsel

RULE FIFTEEN
FUTURES CONTRACTS SPECIFICATIONS

[…]

CANADIAN BANKERS' ACCEPTANCE FUTURES

[…]

15506 Minimum Price Fluctuation
(22.04.88, 08.09.89, 15.10.02, 18.01.16, 00.00.00)

Unless otherwise determined by the Bourse, the minimum price fluctuation is as follow:

For the ~~six~~ ten (10~~6~~) nearest listed contract months including serials, the minimum price fluctuation is 0.005, representing $12.50 per contract.

For all other contract months, the minimum price fluctuation is 0.01, representing $25 per contract.

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RULE FIFTEEN
FUTURES CONTRACTS SPECIFICATIONS

[…]

CANADIAN BANKERS' ACCEPTANCE FUTURES

[…]

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Circular 162-17: Summarised comments and responses

No.	Date comment received	Commenting participant category	Comment summaries	Summary of response
1.	November 29, 2017	Dealer firm	The Commenter indicates that should the BAX reds minimum tick size be reduced to 0.5bp, hedgers would then have a cost of 0.25bp per contract (and even less because of the presence of multiple contracts). As hedgers already have a similar cost for BAX whites, the Commenter believes that reducing hedgers' cost for BAX reds is not warranted. The Commenter further advances that the Bourse's logic behind the initiative is that if the BAX reds are not lucrative enough for hedgers, there will be too few of them, leaving less for the traders. In the Commenter's opinion, the discussion should be turned the other way around – if hedgers pay too less a cost then it would not make sense for liquidity providers. The Commenter gives the example of ICE, which has tried a similar approach with its Short Sterling, and explains that it did not work for the following reasons: (i) *tick value to total cost* (TC) did not match, and (ii) the market depth seemed to match 1bp tick better. The Commenter believes that the Bourse should make a comparison between the BAX reds and ICE's Short Sterling instead of CME's Eurodollar as the latter offers exceptional liquidity. The Commenter believes that since the BAX's market depth is less important, liquidity providers have to get sufficient premium for the risk they have to take, and for this reason, reducing the tick size in the BAX reds would make it unreasonably favorable for hedgers. The Commenter suggests that the Bourse reconsider the reasonable cost to be paid for hedging on BAX reds or modify its rebate structure to compensate the liquidity providers.	The Bourse thanks the commenter for its consideration of the proposed amendments and for expressing its opinion on the same. The Bourse submits that since cost is a major consideration for liquidity providers, it is worth reviewing the *trade-to-tick ratio* (an indicator of profitability per minimum price fluctuation in a BAX futures contract) under the current minimum price fluctuation of 1bp in the BAX reds. The BAX provides the highest profitability to market participants that benefit from the maximum volume rebates (participants that pay an execution fee of 5 cents per BAX contract). An international benchmark conducted by the Bourse shows that the BAX currently has the highest *tick value-to-fee ratio* (83.3X) amongst its peers (Eurodollar being at 32.9x, Euribor at 19.5x, Short Sterling at 22.3x and ASX/SFE Bank Bills at 32.9x). By reducing the minimum price fluctuations in the BAX reds, the ratio would drop to 41.7X for these contracts, and the BAX would still be the short term interest rate (STIR) contract that provides the highest profitability for liquidity providers on a per trade basis, the ratio still being higher compared to the Short Sterling's. The Bourse further submits that when the London International Financial Futures and Options Exchange (LIFFE, now part of ICE group) introduced half-tick in the Short Sterling in the fall of 2008, the timing was not appropriate since it was amidst the financial crisis of 2007-2008, which saw deteriorated market conditions in all STIR contracts, including the BAX. Short Sterling futures volumes, which plummeted from the end of September 2008 through year end, recovered in early 2009, well before LIFFE's announcement that it would revert back to full tick at the end of February 2009. The Bourse also submits that, with regards to the BAX whites, for the six months period following the move from full-tick to half-tick (September 2014 to January 2015), liquidity providers for the whites did not shift their volume to other markets: • In January 2015, volumes in the BAX whites were higher for all participant types (i.e. Liquidity Providers, Institutional Clients and Dealer Firms) since the launch of half-tick in September 2014; • Client volume increased 41%, liquidity provider volume increased 15%, and firm volume increased 47%;

				• Overall, BAX whites volume was up 25%. The Bourse further submits that following this change, resting orders on the BAX whites in its order book turned at a faster rate. The *Resting Orders to Executed Volume Ratio* - an indicator showing how fast resting orders are turning – showed that the ratio dropped from 1.35 to 0.37 within the six months period. A lower ratio indicates that orders in the order book are turning faster and that orders placed rest for a shorter period in the order book before they are matched. In light of the aforementioned, and based on feedback received from its market participants, the Bourse is confident that this initiative will be a success.
2.	December 20, 2017	Trader	The Commenter believes that half ticks in BAX reds is warranted for various reasons: (i) Volume breeds volume (giving the example of the APPLE stock in NY, which has great volumes because independent traders flock to it - and they flock to it because it has great volume); (ii) A modification to the tick sizes in the stock market from one eighth spreads to 5 cents increased volumes significantly; (iii) It is a lot easier for traders to reverse position on half ticks, which increases volume.	The Bourse thanks the Commenter for its consideration of the proposed amendments and for expressing its support.
3.	January 5, 2018	Dealer firm	The Commenter is supportive of the proposed amendments for the reasons set out in Circular 162-17 – currently, BAX reds normally trades at a one tick spread which does not encourage price competition among market participants as movements cannot be more granular than one tick. The Commenter believes that smaller minimum price fluctuations will lead to more granular pricing in these contracts. The Commenter adds that a smaller tick size means that liquidity providers are forced to compete on price rather than other factors (for example, latency) to be at the front of the order queue – competition amongst liquidity providers based on price is likely to lead to better prices for market participants as well as rewarding liquidity providers whose performance is not just based on speed.	The Bourse thanks the Commenter for its consideration of the proposed amendments and for expressing its support.