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<input checked="" type="checkbox"/>	Trading – Equity and Index Derivatives	<input checked="" type="checkbox"/>	Technology
<input checked="" type="checkbox"/>	Back-office – Futures	<input checked="" type="checkbox"/>	Regulation
		<input type="checkbox"/>	MCeX

CIRCULAR
February 14, 2011

LAUNCH OF THE YIELD CURVE PROJECT MARKET MAKERS

Bourse de Montréal Inc. (the “Bourse”) is issuing a Request for Proposal (“RFP”) for the market making of designated fixed income futures contracts (the “Designated Futures Contracts”). This RFP is intended for approved participants and foreign approved participants interested in submitting proposals outlining their abilities and commitment towards market making activities for the Designated Futures Contracts. Market making activities are described as the requirement to quote 80% of the regular trading session and the extended session, at the minimum size and maximum spread indicated in the RFP.

Selected market makers will benefit from:

- **Fixed compensation:** C\$150,000 per year, per market maker, for a two-year period, paid monthly (C\$12,500 per month).
- **Variable compensation:** the Bourse will redistribute on a prorated basis an amount equal to 20% of its net trading revenues (net of rebates) for the Designated Futures Contracts between the selected market makers (for the duration of the Program).
- **Full waiver** of execution and clearing fees.

At the end of the RFP submission period, the Bourse will proceed with the selection of market makers that have submitted their proposals and who have agreed to quote the Designated Futures Contracts.

Circular no.: 031-2011

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The Bourse is launching the new Market Making Incentive Program (the “Market Making Program”) for the following Designated Futures Contracts:

Designated Futures Contracts
Mandatory
Red (months 5 – 8) and Green (months 9 – 12) Three Month Canadian Banker’s Acceptance Futures (BAX)
Two-Year Government of Canada Bond Futures (CGZ)
Five-Year Government of Canada Bond Futures (CGF)
Optional
30-Day Overnight Repo Rate Futures (ONX)
Thirty-Year Government of Canada Bond Futures (LGB)

Respondents who quote optional contracts in addition to the mandatory ones will be deemed more appropriate in the selection process.

Proposed Timeframe

Implementation Timeline	Event
February 14, 2011	Distribution of RFP
March 4, 2011	Deadline for communication of questions
March 16, 2011	Deadline for the Bourse to reply to questions
April 1, 2011	Deadline for reception of proposals to RFP
April 15, 2011	Notification of selected market makers
April 22, 2011	Deadline for signature of the Market Maker Agreement
April 29, 2011	Launch of market making operations

The proposed timeframe is subject to change at the discretion of the Bourse.

The launch of the Market Making Program shall be subject to the completion of ongoing regulatory amendments aiming to add in the rules of the Bourse terms applicable to maker makers for futures contracts traded on the Bourse.

You will find detailed information about the Market Making Program attached herein or on the website of the Bourse at www.m-x.ca.

For additional information, please contact Joanne Elkaim, Director, Fixed Income Derivatives, by e-mail at jelkaim@m-x.ca.

François Gilbert
Vice President, Legal Affairs, Derivatives
Bourse de Montréal Inc.

REQUEST FOR PROPOSAL
for the market making of fixed income futures contracts

Issued by the Montréal Exchange – Fixed Income Derivatives
Monday, February 14, 2011

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Introduction and Purpose of the Request for Proposal

The Montreal Exchange (the “Bourse”) is requesting all approved participants (“AP”) and foreign approved participants (“FAP”) interested in the new market making incentive program (the “Market Making Program”) to submit a proposal outlining their abilities and commitment towards the market making activities for the designated fixed income futures contracts (“Proposal”).

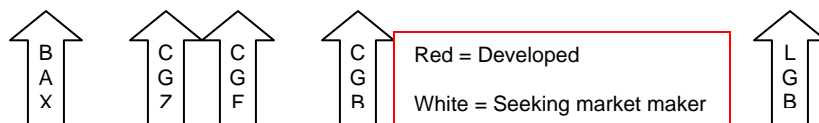
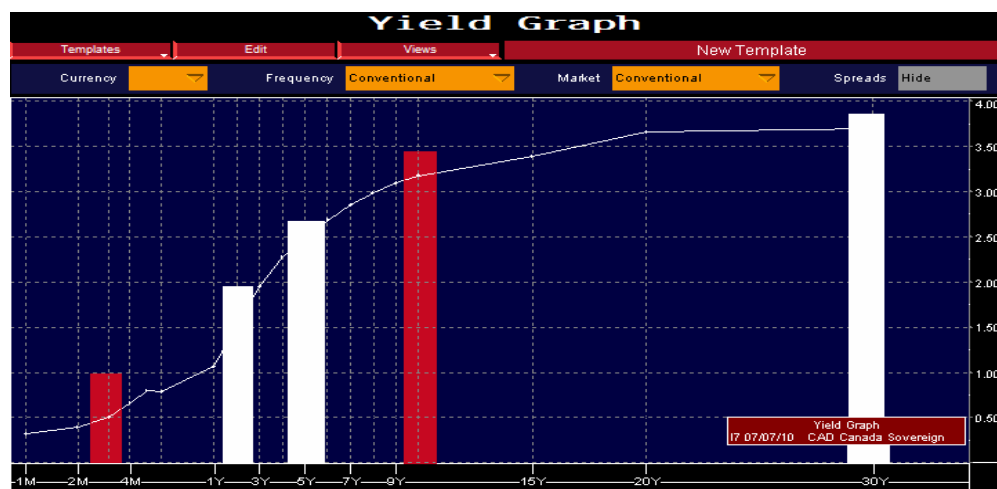
Are eligible to the Market Making Program: approved participants (“AP”) and foreign approved participants (“FAP”) of the Bourse. The ability for an AP or FAP to act as market maker will be conditional upon its good standing and compliance by the AP or FAP with the rules and procedures of the Bourse.

Background

a. History

Listed in 1988, the Three-Month Canadian Bankers Acceptance Future (BAX) has developed into the Montréal Exchange’s most successful fixed income futures contract trading an average of 55,000 contracts per day (year 2010). The following year, the 10-Year Government of Canada Bond future was listed, and has since developed into the Bourse’s second most liquid contract, trading an average of 25,000 per day (year 2010).

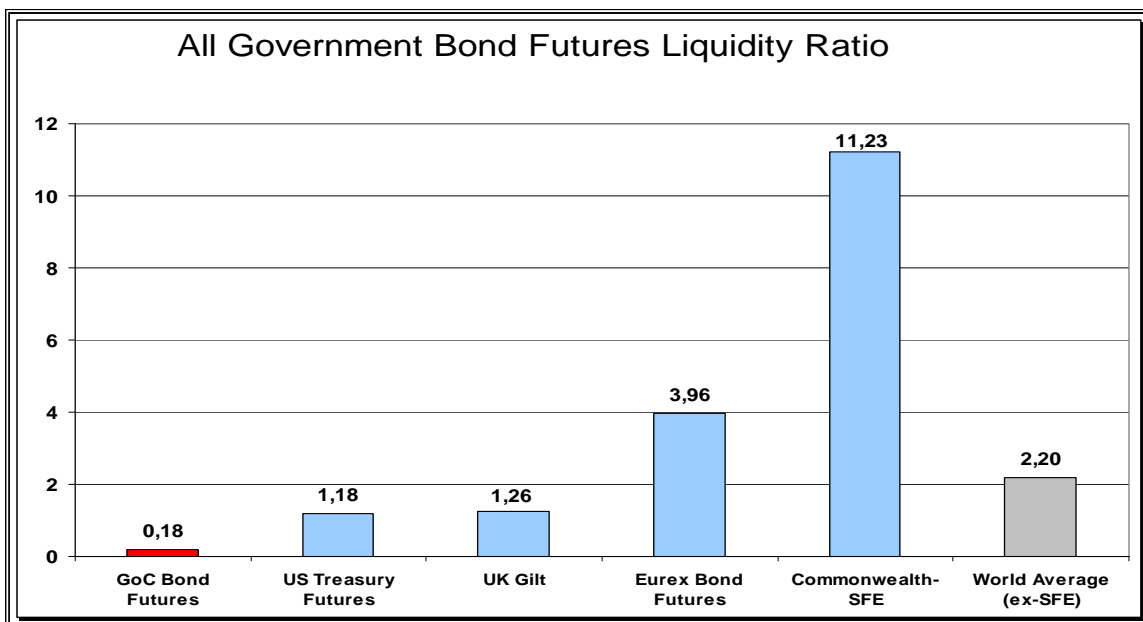
At the outset of these two contract launches, the Bourse has attempted on a number of occasions, with limited success, to complete its development of a full Government of Canada yield curve.



b. Opportunity

With the recovery of global credit markets, the record setting debt issuing environment, a superior banking infrastructure, coupled with the *new market making incentive program*, the Montreal Exchange feels the timing is optimal to renew its efforts towards the continued development of a full yield curve.

As demonstrated by the following graph, the Canadian futures market is underdeveloped relative to its peers.



Therefore, the Montreal Exchange is soliciting Proposals for its new Market Making Program as outlined in the following sections.

Program

a. Description of the new Market Making Program:

As part of this renewed effort, the Bourse will proceed, if the responses submitted are satisfactory to the Bourse, with the selection of up to three market makers (the “Market Maker”) who will quote the designated fixed income futures contracts.

Up to three (3) Market Makers shall be admitted to the Market Making Program.

b. Eligibility:

Are eligible to the Market Making Program:

- Approved Participants (“AP”) of the Bourse;
- Foreign Approved Participants (“FAP”) of the Bourse.

c. Incentives:

a. Fixed Compensation:

\$150,000 per year, per Market Maker, for a two year period paid on a monthly basis (\$12,500 per month). Payment of the fixed compensation will be conditional upon the execution of continuous market making on the designated fixed income futures contracts for the relevant period.

b. Variable Compensation:

The Bourse will proceed to the *prorata* payment of an amount equal to 20% of its net transaction revenues (net of rebates) for the designated fixed income futures contracts between the selected Market Makers for a period of 5 years. Profit-sharing will be conditional upon the execution of continuous market making on the designated fixed income futures contracts over the entire relevant period.

Prorata payment of an amount equal to 20% of the net transaction revenues (net of rebates) for the following designated fixed income futures contracts only covers the revenues generated from transactions above the following thresholds:

Three Month Canadian Banker’s Acceptance Futures (BAX)	Thresholds (daily)
Reds (months 5 – 8) and Greens (months 9 – 12)	2 000 contracts

c. Transaction and Clearing Fees Waiver

The Market Makers shall be eligible for fee waivers comprising transaction fees and clearing fees arising from the market making transactions. The fee waivers shall remain in effect for the duration of the Market Making Program.

d. Duration of contract: 5 years

e. Designated Fixed Income Futures Contracts:

Mandatory:

Three Month Canadian Banker's Acceptance Futures (BAX)

- Reds (months 5 – 8)
- Greens (months 9 – 12)

Two-Year Government of Canada Bond Futures (CGZ)

Five-Year Government of Canada Bond Futures (CGF)

Optional:

30-Day Overnight Repo Rate Futures (ONX)

30-Year Government of Canada Bond Futures (LGB)

Note: Respondents who quote optional contracts in addition to the mandatory ones will be deemed more appropriate in the selection process.

f. Market Making Selection Criteria – Elements:

- i. Technology: Automation capabilities will support a higher quality of market making activities.
- ii. Capitalisation: Market Makers will be required to possess the necessary capital to undertake activities. Respondents should disclose capability.
- iii. Knowledge: Market Makers will be required to have the necessary skills and experience for the market making of fixed income markets.

g. Market Making Requirements

1. Length of day: Market Makers will be required to quote 80% of the regular trading session and the extended session, at the minimum size, and maximum spread indicated in Sub-Section g-2. *Market Making Requirements - Minimum size and maximum spread requirement.*

2. Minimum size and maximum spread requirement:

Contracts	Symbol	Notional Amount	Size Quote	# of Contracts	Maximum Spread
<u>Mandatory</u>					
Banker's Acceptance Futures - Reds	BAX (Red)	1 000 000 \$	25 000 000 \$	25	2 ticks
Banker's Acceptance Futures - Greens	BAX (Green)	1 000 000 \$	20 000 000 \$	20	3 ticks
Two-Year Government of Canada Bond Futures	CGZ	200 000 \$	10 000 000 \$	50	2 ticks
Five-Year Government of Canada Bond Futures	CGF	100 000 \$	5 000 000 \$	50	5 ticks
<u>Optional</u>					
30-Day Overnight Repo Rate Futures	ONX	5 000 000 \$			
30-Year Government of Canada Bond Futures	LGB	100 000 \$			

3. Opening of markets: Market Makers will be required to quote markets at the opening of each regular trading session. In order to ensure an orderly opening, Market Makers will be required to submit orders no later than one minute before the official opening of the regular session.

4. Close of markets: Market Makers will be required to quote markets at the close of the regular session. In order to ensure orderly closing procedures, Market Makers will be required to submit orders that will satisfy settlement requirements as outlined in the following table.

Contracts	Symbol	# of Contracts	Time
<u>Mandatory</u>			
Three Month Canadian Bankers' Acceptance Futures - Reds	BAX (Reds)	50 Contracts	30 seconds
Three Month Canadian Bankers' Acceptance Futures - Greens	BAX (Greens)	50 Contracts	30 seconds
Two Year Government of Canada Bond Futures	CGZ	10 Contracts	20 seconds
Five Year Government of Canada Bond Futures	CGF	10 Contracts	20 seconds
<u>Optional</u>			
30-Day Overnight Repo Rate Futures	ONX	25 Contracts	15 seconds
30-Year Government of Canada Bond Futures	LGB	10 Contracts	20 seconds

5. Roll periods: during contract roll periods, Market Makers shall post the calendar spreads between the nearby and the first deferred delivery month for the CGZ, CGF and LGB contracts, at contracted bid-offered price spreads and in contracted bid and offered depth.

6. Basis market: Market Makers willing to post a continuous basis market will be deemed more appropriate in the selection process.
 7. Early session: Market Makers willing to quote markets during the early session will be deemed more appropriate in the selection process.
- h. Monitoring of performance
- The Bourse shall be solely responsible for the monitoring of Market Makers compliance with the Market Making Program obligations and the calculation of fee waivers.

Request for Proposal (RFP) Procedure

To respond to this RFP, please provide a Proposal addressing the points noted above. As further guidance to the type of information that would be helpful in assessing the Proposal, please refer to the attached table (page 12).

The Proposals will be evaluated by the steering committee of the project, which includes members from the various business units of the Montreal Exchange. The contact person below is available for assistance, as necessary.

- a. Confirmation of Receipt and Delivery of Proposal
Please acknowledge receipt of this RFP via e-mail (to the undersigned address) on or before 5:00 pm EST on February 18, 2011.
- b. Contact
To ensure a fair treatment, please direct all written questions by email. All questions are to be forwarded to the following:

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

c. Timeframe	
February 14, 2011	Distribution of RFP
April 1, 2011	Deadline for Proposal submissions (or at a later date as determined by the Bourse)
April 15, 2011	Notification of selected Market Makers
April 22, 2011	Signature of the Market Maker Agreement
April 29, 2011	Day of live market making activities

d. Information Table

The RFP evaluation process will focus on the Proposals developed in response to the items described in the body of this RFP. In preparing this Proposal, please refer to the attached information table (page 12). Completion of this table is optional and respondents can provide the requested information on another format if more accommodating. Obtaining the information requested would facilitate the RFP evaluation process. However, the Bourse is aware details may not be available to address each of the individual components at this time.

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, in the discretion and assessment of the Bourse, most effectively meet the criteria provided for in this RFP. Will also be considered, which proposals would be the most beneficial to the Bourse's market participants.

Please note that neither the most financially attractive proposal nor any proposal will necessarily be accepted by the Bourse. While all criteria constitute important elements in the selection process, respondents should recognize and are deemed to acknowledge that the steering committee of the project of the Bourse might consider other elements relevant for the evaluation of the Proposals.

In assessing the Proposals, the steering committee of the project of the Bourse will be evaluating each Proposal based on the criteria provided for in Section e) *Market Making Selection Criteria – Elements*: Technology, capitalization and knowledge.

General Terms and Conditions

1. The issuance of this RFP to any prospective respondent shall not cause any express or implied commitment or undertaking on the part of the Bourse and the Bourse is under no obligation or commitment, whatsoever, 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 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 30 days following the closing date. Should a respondent wish to alter or amend a Proposal, it shall be withdrawn by letter and a new Proposal 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
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, directly or through their clearing member (responsible for the allocation process), set up a sub-account that can be recognized by the Bourse, and will also set up a Multi-Purpose sub-account (i.e. client netted account) at the Canadian Derivatives Clearing Corporation (“CDCC”).

10. The signature of the MMA between the Bourse and the AP or FAP shall be subject to the completion of ongoing regulatory amendments aiming to add in the rules of the Bourse terms applicable to market makers for futures contracts traded on the Bourse.

Information Requested	Response
GENERAL CORPORATE INFORMATION	
Company name	
Company address	
RFP contact information: Name and title Telephone number Email address	
Company division	
AP or FAP	
Able to open sub-account	
Exchanges memberships	
Staffing – name and number	
<ul style="list-style-type: none"> • Traders 	
<ul style="list-style-type: none"> • Programmers 	
TECHNOLOGY/OPERATIONS/RISK MANAGEMENT	
Description of automation capabilities	
Trading tools	
Name of Independent Software Vendors (ISVs)	
Description of cash market access	
Description of risk management tools	
Additional risk safeguards	
CAPITALISATION/FINANCIAL INFORMATION	
Market Making capital	
Balance sheet	
Risk budget	
FIXED INCOME AND MARKET MAKING EXPERIENCE	
Number of years trading fixed income	
Number of years market making	
Description of experience	

Contracts	Symbol	Notional Amount	Size (# of Contracts)		Spread (ticks)	
			Required	Committed	Required	Committed
Mandatory						
Banker's Acceptance Futures - Reds	BAX (Red)	1 000 000 \$	25		2	
Banker's Acceptance Futures - Greens	BAX (Green)	1 000 000 \$	20		3	
Two-Year Government of Canada Bond Futures	CGZ	200 000 \$	50		2	
Five-Year Government of Canada Bond Futures	CGF	100 000 \$	50		5	
Optional						
Suggested						
30-Day Overnight Repo Rate Futures	ONX	5 000 000 \$	10		1	
30-Year Government of Canada Bond Futures	LGB	100 000 \$	10		10	
Suggested						

Spread and Size Commitment (please indicate)

Other Considerations:

What are the advantages of your market making abilities over other firms? Please elaborate.
