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**CIRCULAR 031-16**

March 15, 2016

## **REQUEST FOR COMMENTS**

### **MODIFICATION OF THE EXPIRY TIME OF SERIAL AND QUARTERLY MID-CURVE OPTIONS ON THREE-MONTH CANADIAN BANKERS' ACCEPTANCE FUTURES CONTRACTS**

#### **AMENDMENTS TO ARTICLES 6763.9, 6764.9 AND 6765.9 OF RULE SIX OF BOURSE DE MONTREAL INC.**

The Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) has approved amendments to Articles 6763.9, 6764.9 and 6765.9 of Rule Six of the Bourse in order to change the expiry time on the expiry day from 10:00 am to 4:00 pm for serial and quarterly mid-curve options on Three-Month Canadian Bankers’ Acceptance Futures Contracts (OBW, OBY and OBZ).

Comments on the proposed amendments must be submitted within 45 days following the date of publication of this notice, at the latest on **April 29, 2016**. Please submit your comments to:

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A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M<sup>e</sup> Anne-Marie Beaudoin  
Corporate Secretary  
*Autorité des marchés financiers*  
800 Victoria Square, 22<sup>nd</sup> Floor  
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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.

### **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).

### **Regulatory Amendment Process**

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) 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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**AMENDMENTS TO ARTICLES 6763.9, 6764.9 AND 6765.9  
OF RULE SIX OF BOURSE DE MONTREAL INC.**

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## **I. SUMMARY**

Bourse de Montréal Inc. (the “Bourse”) hereby proposes to change the expiry time on the expiry day from 10:00 am to 4:00 pm for (i) serial mid-curve options on Three-Month Canadian Bankers’ Acceptance futures, the OBW contract, the underlying of which is the Three-Month Canadian Bankers’ Acceptance futures (the “BAX contract”) that expires one year from the next quarterly month that is nearest to the expiration of the option and for (ii) one-year and two-year quarterly mid-curve options on Three-Month Canadian Bankers’ Acceptance futures, the OBY and OBZ contracts, the underlying of which is the corresponding BAX contract that expires one year and two years respectively after the option expires.

## **II. ANALYSIS**

### **a. Background**

Currently, on expiry day, the OBW, OBY and OBZ options cease trading at 10:00 am on the Friday immediately preceding the third Wednesday of the contract month, provided it is a business day. If it is not a business day, trading will cease on the first preceding business day.

This replicates the expiry time of the regular options on Three-Month Canadian Bankers’ Acceptance futures, the OBX contract, which is the regular option on the underlying BAX contract that expires during the month in which the option expires. Both the OBX contract and the underlying BAX contract expire simultaneously. However, the underlying BAX contracts for OBW, OBY and OBZ contracts do not simultaneously expire with their options given the nature of their specifications (i.e. mid-curve options being short-dated options on long-dated futures). Therefore, on expiry day, the mid-curve options will cease trading at 10:00 am, while their underlying BAX contracts will continue trading as per regular trading hours until market close at 4:00 pm (since BAX futures are not the ones expiring).

In other words, on expiry day, OBW, OBY and OBZ contracts trading ends six hours too early relative to their underlying BAX contracts making participants unable to take on required mid-curve positions before the closing of trading of the underlying BAX.

The Bourse has consequently received requests from market participants to extend expiration time for mid-curve options from 10:00 am to 4:00 pm to align them with the underlying BAX contracts trading closing times.

Given the current market volatility, the economic environment is becoming more and more conducive to mid-curve trading and these contracts should be made as accessible as possible to satisfy participants’ hedging needs.

### **b. Description and Analysis of Market Impacts**

Extending the expiry time for mid-curve options would allow participants to trade for an additional six hours on expiry day.

Participants wishing to trade mid-curve options after 10:00 am on expiry day must currently turn to the over-the-counter (OTC) market or potentially other exchanges. As Canada’s benchmark for

financial derivatives, the Bourse strives at offering products that satisfy the needs of market participants. It appears that some participants do need to hedge mid-curve exposures during the 6-hour window between the current expiry time of mid-curve options and the trading closing time of the BAX contract. Today, these participants are forced to resort to the OTC market. The Bourse should be able to fulfill these market participants' needs.

### c. Comparative Analysis

Having OBW, OBY and OBZ options expire at end-of-day market close (4:00 pm) will fully align the Bourse's mid-curve market expiry time with the closing time of its underlying futures contract (BAX) similar to other exchanges around the world. This includes examples such as the Short Sterling/Euribor mid-curve options on ICE, Eurodollar mid-curve options on CME and the Euribor mid-curve options on Eurex.

**Table 1: Mid-Curve Options on STIR Futures Comparison<sup>1</sup>**

Exchange	Option	Option Day Expiry Time	Underlying Futures	Futures Regular Closing Time	Discrepancy (HH:MM)
ICE	1 to 4-year mid-curve options Short Sterling futures	11:15 am ET (4:15 pm GMT)	Short Sterling	1:00 pm ET (6:00 pm GMT)	01:45
	1 to 4-year mid-curve options Euribor		Euribor	4:00 pm ET (9:00 pm GMT)	04:45
CME	1 to 5-year mid-curve options Eurodollar futures	8:00 pm ET (7:00 pm CT)	Eurodollar	5:00 pm ET (reopen at 6:00 pm ET) 4:00 pm CT (reopen at 5:00 pm CT)	Open During
EUREX	1 to 2-year mid-curve options Euribor futures	11:15 pm ET (17:15 CET)	Euribor	1:00 pm ET (7:00 pm CET)	01:45
MX	1 to 2-year mid-curve options on BAX futures	10:00 am ET	BAX	4:00 pm ET	06:00

As seen above (in ET), the expiry time for CME mid-curve options is at 8:00 pm, which essentially keeps the mid-curve option market open while its underlying futures market is also open for trading. Additionally, ICE's and Eurex's respective Short Sterling and Euribor mid-curve options both close 1:45 hours prior to the close of their underlying futures at 1:00 pm, while ICE's Euribor mid-curve options close 4:45 hours prior to the close of their underlying futures. The Bourse, on the other hand, has a six-hour discrepancy between its mid-curve options expiry time and the close of the underlying BAX contracts. By extending the expiry time, the Bourse can ensure the Canadian offering better mirrors those of other exchanges.

The Bourse isn't aware of the reasons why ICE's and Eurex's mid-curve options expiry time are not fully aligned with the closing time of their underlying futures. In any event, the gap between the expiry time of the options and the closing time of the underlying futures is much narrower than the current 6-hour gap for the Bourse's products. The Bourse proposes to fully align its mid-

<sup>1</sup> CME: [http://www.cmegroup.com/trading/interest-rates/stir/eurodollar\\_contract\\_specifications.html?optionProductId=5](http://www.cmegroup.com/trading/interest-rates/stir/eurodollar_contract_specifications.html?optionProductId=5) and [http://www.cmegroup.com/trading/interest-rates/stir/eurodollar\\_contractSpecs\\_options.html?optionProductId=4#optionProductId=376](http://www.cmegroup.com/trading/interest-rates/stir/eurodollar_contractSpecs_options.html?optionProductId=4#optionProductId=376); ICE: <https://www.theice.com/products/37650330/Three-Month-Sterling-Short-Sterling-Future>, <https://www.theice.com/products/37650332/One-Year-Mid-Curve-Options-On-Short-Sterling-Future>, <https://www.theice.com/products/38527986/Three-Month-Euribor-Futures> and <https://www.theice.com/products/38541225/One-Year-Mid-Curve-Options-on-Euribor-Futures>; Eurex: <http://www.eurexchange.com/exchange-en/products/int/mon/euribor/Three-Month-EURIBOR-Futures/14684> and <http://www.eurexchange.com/exchange-en/products/int/mon/euribor/One-Year-Mid-Curve-Options-on-Three-Month-EURIBOR-Futures/834972>

curve options expiry time and their underlying futures closing time, similarly to CME's practice, allowing the options to remain open until the end of the BAX trading session. The expiry of the CME mid-curve options occurs at 8pm, fundamentally allowing the opportunity for those options to trade the full day's Eurodollar trading session. The Bourse has not identified any impediments, whether technical, operational or other, to implementing a fully aligned options expiry time and futures closing time. Given the benefits to market participants and the absence of impediments, the Bourse is proposing a simultaneous options expiry time and futures closing time.

#### **d. Proposed Amendments**

In order to implement that change, the Bourse proposes to amend the first paragraph of articles 6763.9, 6764.9 and 6765.9 of the Rules of the Bourse in order for these to read as follows:

Trading ceases at 4:00 p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

### **III. AMENDMENT PROCESS**

The drafting process was initiated by the need to enhance the efficiency of the options on BAX market and to offer better hedging tools to market participants.

### **IV. IMPACTS ON TECHNOLOGICAL SYSTEMS**

The proposed changes should have no impact on the technological systems of the Bourse, its approved participants or any other market participant.

### **V. OBJECTIVES OF THE PROPOSED ADMENDMENTS**

The objective of the proposed amendments is to enhance the accessibility to the serial and quarterly options on BAX markets by aligning the options expiry time with the trading closing time of their underlying contracts.

### **VI. PUBLIC INTEREST**

The Bourse considers that these amendments are in the public interest as they will allow for better hedging options for market participants. These amendments were initiated as a result of demand from market participants.

Having an options market trading hours aligned with its underlying futures market is beneficial for market participants looking to hedge their positions throughout the entire trading day. Market participants trading the BAX greens for example may ultimately need the options market to lay off some risk but are currently limited in doing so given the earlier close of the OBZ contract. Delta

trading options against their underlying is also beneficial for market participants wishing to trade a strategy ranging from covered calls to protective puts or simply in an attempt to create synthetic positions.

## **VII. EFFICIENCY**

Financial markets become more efficient through transparency, liquidity and a general increase in market participants. While the main driver behind this proposal is market access, the more accessible a market becomes, the more liquidity, transparency and efficiency it should yield. Therefore, as trading hours get extended on underlying products such as OBW, OBY and OBZ, the more likely they are to become liquid while offering better price transparency.

## **VIII. PROCESS**

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.

## **IX. ATTACHED DOCUMENTS**

Amendments proposed to articles 6763.9, 6764.9 and 6765.9 of the Rules of the Bourse.

**6763.9 Last Trading Day**  
(18.01.16, 00.00.00)

Trading ceases at ~~10~~4:00 a.p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

**6764.9 Last Trading Day**  
(18.01.16, 00.00.00)

Trading ceases at ~~10~~4:00 a.p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.

**6765.9 Last Trading Day**  
(18.01.16, 00.00.00)

Trading ceases at ~~10~~4:00 a.p.m. (Montréal time) on the Friday immediately preceding the third Wednesday of the contract month or, if it is not a business day, on the first preceding business day.

Options with an expiry that does not coincide with the expiry of the underlying futures shall cease trading at the date and at the time referred to in the options contract. Otherwise, options shall cease trading on the same day and time as the underlying futures.



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