



CIRCULAR 038-22

March 24, 2022

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE NO-REVIEW RANGE OF THE 30-YEAR GOVERNMENT OF CANADA BOND FUTURES (LGB)

On **MARCH 15, 2022**, the Rules and Policies Committee of Bourse de Montréal Inc. (the “**Bourse**”) and the Special Committee of the Regulatory Division of the Bourse approved amendments to the Rules of the Bourse pertaining to the no-review range of the 30-Year Government of Canada (the “**GoC**”) bond futures (“**LGB**”) in order to enhance market quality and help stimulate more activity in the contract.

Comments on the proposed amendments must be submitted at the latest on **APRIL 25, 2022**. Please submit your comments to:

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

M^e Philippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640 Laurier boulevard, suite 400
Québec (Québec) G1V 5C1
Fax : (514) 864-8381
E-mail: consultation-en-cours@lautorite.qc.ca

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. Unless specified otherwise, comments will be published anonymously by the Bourse.

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).

Process for Changes to the Rules

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).

In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the "**Division**"). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

The Division is under the authority of a Special Committee (the "**Special Committee**") appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



**AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE NO-REVIEW
RANGE OF THE 30-YEAR GOVERNMENT OF CANADA BOND FUTURES (LGB)**

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I. DESCRIPTION

Bourse de Montréal Inc. (the “Bourse”) hereby proposes to update its rules pertaining to the no-review range of the 30-Year Government of Canada (“GoC”) bond futures (“LGB”) to enhance market quality and help stimulate more activity in the contract. The Bourse considers that a well-functioning LGB market is desirable for the growth of its listed Canadian yield curve product offering and strives to ensure that its contract design, rules and procedures are in line with the needs of market participants. Therefore, the Bourse proposes to change the no-review range of the LGB contract as part of its efforts to develop this product. Specifically, the Bourse proposes to increase the no-review range of the LGB contract to 1.80 points from fair value, representing about a 3.75 yield point movement in the underlying market. The Bourse believes that this proposed amendment will increase price transparency, enhance the trading experience on the contract and benefit the entire marketplace.

II. PROPOSED AMENDMENTS

The Bourse proposes to modify article 6.210 of its rules to change the no-review range increment of the LGB contract from 40 cents to 180 cents.

The 40 cents increment used to calculate the no-review range was determined when the LGB contract was launched many years ago, and needs to be updated following the recent relaunch of the product. This modification aims to better reflect the market dynamics of the long part of the Canadian yield curve, given that price variations are more volatile on an absolute basis in that part of the curve. This proposal was drafted based on consultations with market participants having an interest in developing the LGB futures and should improve the efficiency of the LGB contract as a trading and hedging instrument. The proposed modifications aim to update a no-review range level that is considered obsolete and detrimental to the development of the LGB market, in order to help the product grow.

III. ANALYSIS

a. Background

The no-review range is part of the Bourse’s Trade Cancellation and Price Adjustment procedure. As stated in Article 6.210, “*the Bourse may adjust Trade prices or cancel Trades when such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the Trading System.*” To help the Bourse achieve the above objective, no-review ranges have been set at the product level to help determine which trades shall be reviewed, adjusted and/or cancelled. The no-review ranges consist in applying an increment (40 points in the case of the LGB product) to a fair value determined based on all relevant information

If the Bourse determines that a trade price is outside of the no-review range, the Bourse, after endeavoring to contact the approved participant counterparties, shall adjust the price to the limit

of the no-review range. The policy of the Bourse is to favor price adjustment as a remedy over trade cancellation and to adjust trades in order to minimize the impact for all market participants involved in the erroneous trades and particularly those who had a regular order in the order book.

The Bourse introduced the LGB contract in November 2007. The current no-review range increment of 40 price points was determined at that time, based on the 10-year GoC bond futures level. The LGB contract has seen limited trading activity in 2007 and 2008 following its initial launch, followed by a reduction in trading activity that saw the open interest decrease to zero at the end of 2008. Because of this limited adoption, the no-review range of the LGB was never reviewed and adjusted to factor in the greater price volatility of the product. For example, a one basis point movement would translate into a price movement of about 12 cents in the 10-year sector but of about 50 cents in the 30-year sector of the Canadian yield curve.

The Bourse relaunched the LGB contract via a new market making program in November 2021, after making some modifications to the contract specifications earlier in the year. Since the relaunch, the average daily volume and open interest of the LGB contract stands at 514 and 2 965 contracts¹ respectively. However, the Bourse had to intervene many times to adjust transactions that were deemed outside the no-review range.

Table 1 : Trade adjustments since December 2021 for GoC bond futures:

Product	2-Year GoC bond futures (CGZ)	5-Year GoC bond futures (CGF)	10-Year GoC bond futures (CGB)	30-Year GoC bond futures (LGB)
# of trade adjustments	1	2	1	9

The Bourse acknowledges that trading through the depth of the market may be more likely for products in development phases or less liquid products, but the current level of the no-review range generates a lot of intervention that impacts market dynamics. Moreover, the Bourse did receive negative comments from participants related to this no-review range, which is considered too small and not adapted for the product. If the proposed level of 1.80 points had been effective as of the relaunch date, only two transactions would have been outside of the no-review range for the LGB, which is comparable to what we observed in our other GoC bond futures product.

b. Objectives

The objective of the proposed amendment is to update the no-review range of the LGB contract so that it is more adapted to the product specificities. Specifically, its current level is deemed detrimental to market participants as it prevents a well-functioning price discovery mechanism. The trade adjustments mechanism described above is not meant to interfere with the process of fair and orderly price discovery.

The objective of no-review range is rather to protect market integrity and participants against a

¹ As of February 11, 2022

disruptive market event or abnormal trading behavior that would cause significant price volatility. Erroneous trades can detract from the integrity of the price information process and may not be a genuine reflection of supply and demand in the market. Therefore, having robust no-review range in place helps reduce the likelihood that an error trade causes a negative impact on the market and its participants. The Bourse aims to provide a healthy balance between allowing a reasonable range of price movement on volatile days while protecting participants from erroneous transactions.

The Bourse believes this amendment remains consistent with its objective to:

- 1) provide the market with an efficient price discovery mechanism and hedging tool
- 2) strengthen the functioning of the Canadian derivatives market
- 3) better serve the interests of market participants.

c. Comparative Analysis

The proposed modification would bring the no-review range of the LGB product in line with that of other comparable government bond futures contracts, specifically the 5-year CGF and 10-year CGB. Liquidity and robust markets have successfully developed in these contracts in recent years and the Bourse believe these serve as good benchmarks. Similarly, the proposed adjustment would bring the no-review range of the LGB in line with levels at other major exchanges for comparable products. The Bourse believes that having a structure similar to those equivalent international products is relevant and will facilitate the development of the LGB product.

Table 2: No review range increment for CGF, CGB and LGB

Product	Dollar value of one basis point	No-review range increment (bps movement)	No-review range increment (in # of minimum tick)
Five-year Government of Canada bond futures (CGF)	C\$53	20 cents (3.77 basis points)	20 cents = 20x the 0.01 tick size
Ten-year Government of Canada bond futures (CGB)	C\$107.5	40 cents (3.72 basis points)	40 cents = 40x the 0.01 tick size
Thirty-year Government of Canada bond futures (LGB)	C\$480	40 cents (0.83 basis points)	40 cents = 8x the 0.05 tick size

Source: Montreal Exchange (as of Feb 14, 2022)

Table 3: No review range for US Treasury futures

Product	No-review range (basis point equivalent - indicative)
5-Year U.S. Treasury Note Futures	25 points (5 basis points)
10-Year U.S. Treasury Note Futures	62.5 points (7.5 basis points)
30-year U.S. Treasury Futures	93.75 points (6.25 basis points)
30-year (Ultra) U.S. Treasury Futures	93.75 points (2.75 basis points)

Table 4: No review range for Australian Treasury futures

Product	No-review range (expressed in basis points)
3-Year Treasury Futures	5 basis points
10-Year Treasury Futures	5 basis points
20-year Treasury Futures	5 basis points

Source: ASX Trade cancellation policy³

The proposed modification would bring the basis point equivalent of the no-review range increment to 3.75 basis point, in line with those of the successful CGF and CGB products. It would also bring the no-review range increment to tick size ratio from 8x to 36x, which again would be more comparable to CGF and CGB. Finally, the proposed level is consistent with the standard 10Y/30Y strategy listed by the Bourse on a quarterly basis, which has a ratio of 9 CGB for 2 LGB. The proposed increment of 1.80 points is also comparable with those on similar products on other international exchanges. Based on this benchmarking, the Bourse considers that the proposed modification is justified and represents an opportunity to better serve the needs of market participants.

d. Analysis of Impacts

i. Impacts on Market

The Bourse believes the impact on market participants will be minimal as there is currently limited volume and open interest in the LGB contract. The proposed modification aims to correct a no-review range level that has been deemed detrimental to the well-functioning of the LGB market. The proposed modification supports the Bourse's efforts to develop a complete and efficient listed yield curve offering, bringing market transparency and trading efficiency benefits to domestic and global market participants. Finally, the proposed modification would bring the LGB no-review range comparable to local and international standards on a basis point value basis, suggesting that participants trading similar products are already accustomed to such levels.

ii. Impacts on Technology

² <https://www.cmegroup.com/rulebook/files/588h-globex-non-reviewable-trading-ranges.xls>

³ <https://www.asx.com.au/documents/public-consultations/asx-24-trade-cancellation-policy-consultation-paper.pdf>

To implement the proposed rule amendment, the Bourse will need to adjust its internal product procedures and configuration table. The steps are considered minimal. At this stage, the Bourse has not identified any impediments, whether technical, operational or other, to the implementation of the proposed amendments.

iii. Impacts on regulatory functions

The proposal has no impact on the supervision, surveillance nor the reporting requirements of the Bourse.

iv. Impacts on clearing functions

The proposed changes should have no impact on the clearing functions of CDCC, on CDCC's Rules and Operations Manual, nor on CDCC's Clearing Members, or other Industry participants dealing with CDCC.

v. Public Interest

The Bourse considers these amendments to be in the interest of the public as they intend to improve the market efficiency and price discovery mechanism of the LGB contract in order to help the product develop. A listed contract that meets participant needs has a higher probability of being more appealing and of bringing more activity to the transparent and centrally-cleared futures market. The Bourse believes the updated no-review range is in line with market expectations and will encourage more engagement on the electronic market.

IV. PROCESS

The drafting process was initiated by the desire of the Bourse to review the rule article related to trade cancellation and price adjustment of the LGB contract. The Bourse believes that a more appropriate no-review range is needed to help generate interest and foster activity in the LGB product.

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

V. ATTACHED DOCUMENTS

Proposed amendments to the Rules of the Bourse.

Article 6.210 Trade Cancellation and or Price Adjustment

[...]

(h) No-Review Range. The Bourse will determine the limits of the No-Review Range by determining what was the acceptable market price for the Derivative Instrument before the Trade under review occurred based upon all relevant information, including the last Trade price, a better bid or offer, a more recent price for a related Derivative Instrument (for example a different expiry month) and the prices of similar Derivative Instruments trading on other markets once the acceptable market price is established, the Bourse applies the following increments to determine the limits of the No-Review Range;

DERIVATIVE INSTRUMENT	INCREMENT
[...]	
Thirty-Year Government of Canada Bond Futures (LGB) <ul style="list-style-type: none"> ● Regular strategy orders ● Implied strategy orders 	40 180 points 40 180 points Sum of strategy's individual legs' increments
[...]	

Article 6.210 Trade Cancellation and or Price Adjustment

[...]

(h) No-Review Range. The Bourse will determine the limits of the No-Review Range by determining what was the acceptable market price for the Derivative Instrument before the Trade under review occurred based upon all relevant information, including the last Trade price, a better bid or offer, a more recent price for a related Derivative Instrument (for example a different expiry month) and the prices of similar Derivative Instruments trading on other markets once the acceptable market price is established, the Bourse applies the following increments to determine the limits of the No-Review Range;

DERIVATIVE INSTRUMENT	INCREMENT
[...]	
Thirty-Year Government of Canada Bond Futures (LGB) <ul style="list-style-type: none">● Regular strategy orders● Implied strategy orders	180 points 180 points Sum of strategy's individual legs' increments
[...]	