CIRCULAR 163-21
September 21, 2021

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES OF BOURSE DE MONTRÉAL INC. TO MODIFY THE MINIMUM PRICE FLUCTUATION OF THE 30-YEAR GOVERNMENT OF CANADA BOND FUTURES (LGB)

On September 14, 2021, the Rules and Policies Committee of Bourse de Montréal Inc. (the "**Bourse**") approved amendments to the Rules of the Bourse to modify the minimum price fluctuation of the 30-Year Government of Canada bond futures (LGB).

Comments on the proposed amendments must be submitted at the latest on **October 21, 2021**. 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 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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I. DESCRIPTION

Bourse de Montréal Inc. (the "Bourse") hereby proposes to modify the Rules of the Bourse (the "Rules") pertaining to the minimum price fluctuation on the 30-Year Government of Canada ("GoC") bond futures ("LGB") in order to make the product more tailored to initial supporter needs ahead of the contract re-launch. The Bourse considers that a well-functioning LGB market is desirable for the growth of its listed yield curve offering and strives to ensure that its contract design is in line with the needs of its market participants. Therefore, the Bourse proposes to change the minimum price fluctuation of the LGB contract as part of its efforts to develop the long end of the curve. Specifically, the Bourse proposes to increase the minimum price fluctuation of the LGB contract from 1 cent per contract to 5 cents per contract. The Bourse believes that this proposed amendment will enhance the trading experience on the contract and benefit the entire marketplace.

II. PROPOSED AMENDMENTS

The Bourse proposes to modify article 12.405 of the Rules to change the minimum price fluctuation of the LGB contract from 0.01 = C$10 to 0.05 = C$50 per C$100 nominal value.

The proposed modification is aligned with the views of market participants having an interest in developing the futures market for the long end of the Canadian yield curve. It is meant to better reflect market dynamics of interest rate products with a longer underlying maturity, to make the LGB market more robust and the price less volatile. The Bourse is of the view that the result would enhance the efficiency of the LGB contract as a trading and hedging instrument. The Bourse is confident that a minimum tick size that appropriately reflects these market considerations will help initiate growth in the futures contract.

III. ANALYSIS

a. Background

The Bourse introduced the LGB contract in November 2007. The current minimum price fluctuation of 0.01 = C$10 per contract was set and has not been revised since. 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.

Since then, numerous discussions with market participants have occurred, contemplating ways to design and develop a dynamic and successful LGB contract that would meet the needs of market participants. Following the recent successful re-launch of its 2-year ("CGZ") and 5-year ("CGF") GoC bond futures contracts, the Bourse believes the timing is right to focus on the development of the LGB contract, in order to provide a complete listed yield curve offering ranging from the short-end (three years or less), to medium-term (three to ten years) and the long-end (greater than 10 years).

In early 2021, the Bourse conducted an evaluation of optimal LGB launch conditions and, as part of this exercise, proposed different modifications[1] to the LGB delivery basket and minimum volume threshold for block transactions to enhance the efficiency of the contract. After subsequent analysis and discussions with market participants, the Bourse believes the proposed amendment is also required prior to relaunching the LGB contract, in order to maximize the likelihood of success. The current tick size of 1 cent may be too granular and unnecessary for the product at this stage. An increase of tick size would enhance the robustness of market depth of the LGB contract.

b. Objectives

The objective of the proposed amendment is to ensure that the LGB specifications are optimal to help develop the long-end of the listed yield curve. The Bourse aims to provide the market with an attractive 30-year contract offering that meets the needs of the contract's initial supporters, in an effort to grow the volume and open interest. The Bourse believes that the proposed modification will help accommodate early participation in the product and increase the effectiveness of the LGB market for hedgers and speculators.

More specifically, the Bourse is of the view that the proposed modifications will enhance the robustness of the LGB market by making it more representative, reliable and make its price less volatile. The current 1 cent minimum fluctuation price provides too many granular tick increments that could spread the liquidity up and down the pricing structure, which is not efficient for the development and sustainability of the contract. A larger tick size will result in a wider minimum bid-ask spread for investors, but should also motivate more participants to provide liquidity.

Additionally, a smaller tick size usually leads to lower volume per trade and lower size available at bid and ask prices, resulting in participants competing only on the price with little size. That scenario is not desirable for the initial development of the LGB contract. The proposed increase will help build initial liquidity in the product and facilitate the management of positions.

The Bourse believes that this amendment remains consistent with its objectives to: 1) provide market participants with an efficient price discovery mechanism as well as hedging tool; 2) strengthen the functioning of the Canadian derivatives market; and 3) better serve the interests of market participants.

c. Comparative Analysis

The modification of the minimum price fluctuation is in line with the tick size structure of other international bond futures contracts, in the sense that longer-term futures usually have greater minimum price fluctuation increments. The proposed modification remains consistent with comparable international product specifications, as illustrated by the table 1 below. Therefore,

[1] See https://www.m-x.ca/f_circulaires_en/144-21_en.pdf

the Bourse is of the opinion that the proposed 5 cents minimum tick size increment is appropriate and reasonable for the LGB contract.

Table 1: International benchmarking of government bond futures minimum price fluctuation

Exchange	MX	CME*	Eurex	ICE
Minimum price fluctuation of Government bond futures	2Y: 0.005= C$5 5Y: 0.01= C$10 10Y: 0.01= C$10 30Y: 0.05 = C$50* (proposed)	2Y: 1/8 of 1/32 = $7.8125 5Y: 1/4 of 1/32 = $7.8125 10Y: 1/2 of 1/32 = $15.625 30Y: 1/32 = $31.25	2Y: 0.005 = EUR 5 5Y: 0.01 = EUR 10 10Y: 0.01 = EUR 10 30Y: 0.02 = EUR 20	2Y: 0.01 = EUR 10 5Y: 0.01 = EUR 10 10Y: 0.01 = EUR 10 30Y: 0.02 = EUR 20

Sources: Contract specifications and exchange websites

Based on this international benchmarking, the Bourse considers that the proposed modifications are justified, as the minimum price fluctuation of the LGB contract will be comparable with products of other exchanges while taking into account local market needs.

d. Analysis of Impacts

i. Impacts on Market

The Bourse believes the impact on market participants will be minimal as there is currently no volume or open interest in the LGB contract. In addition, the proposed increase in the minimum price fluctuation is expected to remain competitive with the market observed in the 30-year segment of the yield curve. As stated earlier, the intention of the Bourse is to strengthen the functioning of the Canadian derivatives market. The proposed modification aims to develop a robust LGB contract and help the Bourse establish a complete listed yield curve offering that would bring market transparency and trading efficiency benefits to local and global market participants.

ii. Impacts on Technology

The proposed Rule amendments have no impact on the technological systems of the Bourse, its approved participants, independent software vendors, or any other market participants. 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 will 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 specifications of the LGB contract ahead of the product relaunch. A contract that meets participants' needs has a better chance of being more appealing and of bringing more activity to the transparent and centrally-cleared futures market. The Bourse believes the new minimum price fluctuation is in line with market expectations, will encourage more transactions on the electronic market and will provide a healthier balance of interests for participants.

IV. PROCESS

The drafting process was initiated by the desire of the Bourse to review the relevance of LGB product specifications ahead of the expected product relaunch. The Bourse believes that a more appropriate minimum price fluctuation should be set to help generate interest in using the LGB and foster activity in this contract during its liquidity development phase.

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.

ANNEX 1 - PROPOSED AMENDMENT

AMENDED VERSION

[…]

Article 12.405 **Minimum Price Fluctuation**
Unless otherwise determined by the Bourse, the minimum price fluctuation is ~~0.01~~ 0.05 per $100 nominal value.

CLEAN VERSION

[…]

Article 12.405 **Minimum Price Fluctuation**
Unless otherwise determined by the Bourse, the minimum price fluctuation is 0.05 per $100 nominal value.