

## 2-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT-PROPOSED CHANGES TO THE CONTRACT SIZE

# A -- Proposed Amendments to the Rules

Amendments to articles 6801, 15603 and 15606 relative to the contract size of the 2-year Government of Canada bond futures contract (CGZ) and deletion of article 15003.

## **B** -- Rationale

The Bourse has been asked by some market participants, to evaluate the possibility of increasing the contract size of the CGZ contract from C\$100,000 to C\$200,000.

The contract size was initially set at C\$100,000 for the following reasons:

- 1) to harmonize the contract size with the 10year Government of Canada CGB bond futures contract;
- 2) to adopt the European and Australian approach to harmonize contract sizes across the bond futures product line; and
- 3) to maximize market participation in terms of both volume and open interest. A survey held among Approved Participants and potential users had shown, prior to the launch of the CGZ, that 50% of the surveyed persons were in favor of a contract size of \$100,000 to maximize market participation while the other 50% was in favor of a contract size of \$200,000 to maximize the cost effectiveness of the contract.

# **C** – Objectives

• The purpose of the proposed amendments to articles 6801, 15603 and 15606 of the Rules of the Bourse that relate to the contract size of the

2-year CGZ bond futures contract are as follows:

- 1) to respond to market feedback to adopt a larger sized CGZ contract for cost effectiveness considerations; and
- 2) to offer market participants that use the 2-year US Treasury Note futures contract the same contract size of \$200,000 for the CGZ. The CBOT 2-yr US Treasury Note futures contract averaged daily volumes of 82,640 contracts (+174%) in 2005 compared to 30,144 contracts in 2004 which is an indication of the success of a larger sized contract.

For illustrative purposes, the following tables highlight the different contract sizes of bond futures contracts on international futures exchanges that are the equivalent counterpart of the CGZ contract and the CGB contract:

Short-term Bond Futures Contract	Exchange	Contract Size
2-year CGZ	MX	C\$ 100 000
2-yr SCHATZ	EUREX	€100 000
2-yr U.S. T-NOTE	CBOT	US\$ 200 000
3-year Australian		
Gov't Bond	SFE	A\$ 100 000
Long-term	Exchange	Contract Size
<b>Bond Futures Contract</b>	_	
10-year CGB	MX	C\$ 100 000
10-yr BUND	EUREX	€100 000
10-yr U.S. T-NOTE	CBOT	US\$ 100 000
10-year Australian Gov't Bond	SFE	A\$ 100 000

Also, article 15003 was deleted in order to eliminate duplication and to concentrate the relevant information in Rule Six.

Articles 15603 and 15606 were amended to reference articles 6801 and 6807 in the same perspective in order to concentrate information in Rule Six.

#### **D** – Impact of the Proposed Rule

The proposed amendments will provide market participants with a CGZ bond futures contract that better responds to their needs as it will make the CGZ more cost effective to use.

# **E** -- **Public Interest**

The proposal is designed to make it more efficient to use the CGZ bond futures contract.

# **F** -- **Process**

The management of the Bourse recommends to the Rules and Policies Committee approval of the amendments to articles 6801, 15603 and 15606 and the deletion of article 15003 of the Rules of the Bourse.

# **G** – **References:**

- Rule Six of the Bourse: article 6801.
- Rule Fifteen of the Bourse: articles 15003, 15603 and 15606.
- Revised contract specifications for the CGZ bond futures contract.

#### D. SPECIAL RULES FOR TRADING FUTURES CONTRACTS

#### Section 6801 - 6820 Terms of Trade Futures

#### 6801 Standard Trading Unit

(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 29.04.02, 14.06.02, 03.05.04, 00.00.05)

a)—No futures contract shall be traded on the Bourse unless it has standardized terms and is issued by the appropriate clearing corporation in cooperation with the Bourse.

b) The standard unit of trading shall be one contract and unless otherwise determined by the Bourse, shall be as follows Unless otherwise determined by the Bourse, each trading unit shall consist of the following:

	30-day overnight	
	repo rate futures	<u>-CAN\$5,000,000</u>
	-1-month	
	- Canadian bankers'	
	acceptance futures contracts	<u> </u>
	-3-month	
	- Canadian bankers'	
	acceptance futures contracts	<u> </u>
	Government of Canada	
	Bond futures contracts	<u> </u>
	Futures contracts	<u>CAN\$200 times</u>
	on the S&P/TSX 60	the S&P/TSX 60
	Stock Index	Stock Index level
<del>c)</del>	Share futures contracts	
	The Bourse, in consultation w	ith the Canadian Derivatives Clearing Corporation, shall establish the unit of trading
	for each share futures contract	that has been approved for trading.
<del>d)</del>	-Futures contracts on the S&P/	FSX sectorial stock indices
	The Bourse, in consultation w for each futures contract on the	ith the Canadian Derivatives Clearing Corporation, shall establish the unit of trading S&P/TSX sectorial stock indices that has been approved for trading.
a)	in the case of the 30-day overn	ight reporte futures:

a nominal value of CAN\$5,000,000.

b) in the case of the 1-month Canadian bankers' acceptance futures:

a nominal value of CAN\$3,000,000 of 1-month Canadian bankers' acceptances.

c) in the case of the 3-month Canadian bankers' acceptance futures:

a nominal value of CAN\$1,000,000 of 3-month Canadian bankers' acceptances.

d) in the case of the 2-year Government of Canada Bond futures:

CAN\$200,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%.

e) in the case of the 5-year Government of Canada Bond futures:

CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%.

f) in the case of the 10-year Government of Canada Bond futures:

CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6 %.

g) in the case of the futures contract on the S&P/TSX 60 Stock Index:

CAN \$200 times the S&P/TSX 60 Stock Index level.

100 shares of the share underlying the futures contract.

h) in the case of the futures contract on designated S&P/TSX sectorial stock indices:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

i) in the case of the futures contract on Canadian and international stocks:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

# 15003 Specifications

(24.01.86, 22.04.88, 05.09.89, 16.04.92, 05.08.97, 07.09.99, 22.12.99, 31.01.01, 29.04.02, 14.06.02, 03.05.04, <u>abr. 00.00.05</u>)

Unless otherwise determined by the Bourse, each trading unit shall consist of the following:

a)in the case of 30-day overnight repo rate futures:

a nominal value of CAN\$5,000,000.

b) in the case of 1-month Canadian bankers' acceptance futures:

a nominal value of CAN\$3,000,000 of 1-month Canadian bankers' acceptances.

c) in the case of 3-month Canadian bankers' acceptance futures:

a nominal value of CAN\$1,000,000 of 3 month Canadian bankers' acceptances.

d) in the case of 2-year Government of Canada Bond futures:

CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%.

e) in the case of 5-year Government of Canada Bond futures:

- CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6%.
- f) in the case of 10-year Government of Canada Bond futures:
  - CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a coupon of 6 %.
- g) in the case of the futures on the S&P/TSX 60 Stock Index:
  - CAN \$200 times the S&P/TSX 60 Stock Index level.
- 100 shares of the share underlying the futures contract.
- h) in the case of the futures on designated S&P/TSX sectorial stock indices:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

i) in the case of futures on Canadian and international stocks:

The Bourse, in consultation with the Canadian Derivatives Clearing Corporation, shall establish the unit of trading for each futures contract that has been approved for trading.

## 15603 Trading Unit

(08.09.89, 05.08.97, 22.12.99, 03.05.04, 00.00.05)

Unless otherwise determined by the Bourse, the unit of trading shall be CAN\$100,000 nominal value of a notional Government of Canada Bond bearing a 6% coupas defined in article 6801.

#### 15606 Minimum Price Fluctuation Unit

(08.09.89, 17.11.04, 00.00.05)

Price fluctuation units shall be in minimum multiples of 0.005 per contract. For each 0.005 increase in the price, the clearing house shall credit \$5 per contract those members holding open long positions and debit \$5 per contract those members holding short positions. For each 0.005 decrease in the price, the clearing house shall debit \$5 per contract those members holding open long positions and credit \$5 per contract those members holding short positions as defined in article 6807.

#### 6807 Minimum Price Fluctuations

(24.01.86, 22.04.88, 08.09.89, 16.04.92, 19.01.95, 07.09.99, 31.01.01, 29.04.02, 14.06.02, 15.10.02, 03.05.04, 17.11.04)

Unless otherwise determined by the Bourse, minimum price fluctuations shall be as follows:

- a) 30-day overnight repo rate futures 0.005 per \$100 nominal value
- b) 1-month and 3-month Canadian Bankers' acceptance futures
  - i) For the nearest contract month(s), as determined by the Bourse, 0.005 per \$100 nominal value.
  - ii) For all contract months excluding the nearest contract month(s) as determined by sub-paragraph i), 0.01 per \$100 nominal value.

c)	Government of	
	Canada Bond futures	
	Contracts	

# a minimum of 0.005 per \$100 nominal value

- d) Futures contract on the S&P/TSX 60 Stock Index
- e) Canadian share futures contract
- f) International share futures contracts

0.05 index point equivalent to CDN \$10 per contract

A minimum of \$0.01 CDN per Canadian share

At a minimum of the corresponding unit of fluctuation used by the market on which the underlying stock is traded

g) Futures contracts on S&P/TSX sectorial stock indices 0.01 index point

Trading Unit	C\$1200,000 nominal value Government of Canada Bond with 6% no coupon	
Contract Months	March, June, September and December.	
Price Quotation	Par is on the basis of 100 points, with one point equal to $C$	
Last Trading Day	Trading ceases at 1:00 p.m. (ET) on the seventh business day preceding the business day of the delivery month.	
Contract Type	Physical delivery of eligible Government of Canada Bonds.	
Delivery Notices	Delivery notices should be submitted before 5:30 p.m. or before such time by the clearing corporation on any business day, between the second busi day preceding the first business day of the delivery month, and the sec business day preceding the last business day of the delivery month inclusiv	
Delivery Date	Delivery shall be made on the second business day following the submiss of the delivery notice by the member holding a seller's position or on any of day as determined by the clearing corporation. Delivery shall be completed later than the last business day of the delivery month.	
Minimum Price Fluctuation	0.005 = C $5 - 10$ per contract.	
Reporting Level	250 contracts.	
Position Limits	Information on position limits can be obtained from Bourse de Monte Inc. as they are subject to periodic changes.	
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from Bourse as they are subject to periodic changes.	
Delivery Standards	Government of Canada Bonds which:	
	<ul> <li>i) have a remaining time to maturity of between 1 year 6 m and 2 years 6 months as of the first day of the delivery m calculated by rounding down to the nearest whole month p ii) have an outstanding amount of at least C\$3.5 billion no value;</li> <li>iii) are originally issued at two-year, five-year or ten Government of Canada bond auctions;</li> <li>iv) are issued and delivered on or before the 15th day preceding first delivery notice day month of the contract.</li> </ul>	
Daily Price Limit	Three points (C\$3,000) per contract above or below the previous settlement price.	
Trading Hours	<ul> <li>Early session: 6:00 a.m. to 8:05 a.m. (ET)</li> <li>Regular session: 8:20 a.m. to 3:00 p.m. (ET).</li> <li>Curb trading session: The curb trading session begins once settlement prices have been determined and ends at 4:00 p. (ET)</li> </ul>	
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).	
Ticker Symbol	CGZ	

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