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CIRCULAR
May 21, 2013

REQUEST FOR COMMENTS

MODIFICATIONS TO THE OVERNIGHT INDEX SWAP FUTURES CONTRACT (OIS) SPECIFICATIONS

MINIMUM PRICE FLUCTUATION

The Rules and Policies Committee of Bourse de Montréal Inc. (the **Bourse**) has approved amendments to the specifications of the Overnight Index Swap Futures contract (OIS) in order to raise its minimum fluctuation price to 0.005, or C\$31.25 (one-half of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis).

Comments on the proposed amendments must be submitted within 30 days following the date of publication of this notice, at the latest on **June 21, 2013**. Please submit your comments to:

M^e Pauline Ascoli
Vice-President, Legal Affairs, Derivatives
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Québec H4Z 1A9
E-mail: legal@m-x.ca

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

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Circular no.: 095-2013

Appendices

For your information, you will find in the appendices an analysis of the proposed amendments as well as the amended OIS contract specifications. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as determined by the *Derivatives Act* (R.S.Q., 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 and Procedures. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as determined by the *Derivatives Act* (R.S.Q., chapter I-14.01).

Circular no.: XXX-2013

Tour de la Bourse

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MODIFICATION TO THE OVERNIGHT INDEX SWAP FUTURES CONTRACT (OIS) SPECIFICATIONS

I. OVERVIEW

Bourse de Montréal Inc. (the Bourse) hereby proposes to modify the contract specifications in regard to the Overnight Index Swap Futures contract (OIS) with respect to price fluctuation intervals.

II. ANALYSIS

Description and Analysis of Impacts

On Friday, February 24, 2012, the Bourse launched the OIS contract. The contract specifications stipulated a price fluctuation interval of 0.001, or C\$6.25 (one-tenth of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis).

Market consultations have led the Bourse to conclude that price fluctuation interval of 0.001 currently in place is too small to entice market makers and liquidity providers to post markets on the OIS contract. The Bourse surveyed market participants and the majority were in favour of a price fluctuation for the OIS contract of 0.005, or C\$31.25 (one-half of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis). Furthermore, the CME, NYSE Euronext, SFE and other major international derivatives exchanges all use a half-tick price fluctuation interval for this type of futures contract.

Increasing the price fluctuation from a tenth of a tick to a half-tick will minimise the risks to market makers and liquidity providers, when quoting two-sided markets, of another market participant coming in and quoting between their bid and ask. With wider price fluctuation intervals (i.e. fewer price points), market makers will have greater confidence that their quotes will keep them top of book and that someone else will not be able to come in and quote tighter spreads.

Increasing the price fluctuation from a tenth of a tick to a half-tick will also serve to harmonise the tick size of the OIS contract with the tick size (0.005 or half-tick) of the Three-month Canadian Bankers' Acceptance Futures contract (BAX) listed by the Bourse. This will make it easier for participants to execute spread trading opportunities that may arise between the two contracts.

Drafting Process

While the drafting process was driven by the need to harmonise price fluctuation interval methodology for OIS with that of comparable products at major international derivatives exchanges, the original request for this change in methodology came from the market itself.

Impacts on Technological Systems

The proposed changes will have no impact on the technological systems of the Bourse, the Bourse's approved participants or on those of any other market participants.

Benchmarking

Overnight Index Swap Futures		
Exchange	Contract	Price Fluctuation
CME	30-Day Fed Funds Futures	Nearest expiring contract month: One-quarter of one basis point (0.0025), or \$10.4175 per contract (1/4 of 1/100 of one percent of \$5 million on a 30-day basis, rounded up to the nearest cent per contract). All other contract months: One-half of one basis point (0.005), or US\$20.835 per contract.
NYSE Euronext LIFFE	EONIA Futures	Minimum price increment of 0.005, or €12.50 per contract.
SFE	30-Day Interbank Cash Rate Futures	Minimum price increment of 0.005, or AUD\$12.33 per contract.

III. SUMMARY OF THE PROPOSED AMENDMENTS TO THE RULES OF THE BOURSE

The Bourse proposes to amend the contract specifications for the Overnight Index Swap Futures contract (OIS) to specify that the minimum price fluctuation will change from 0.001 to 0.005, or C\$31.25 (one-half of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis).

IV. OBJECTIVE OF THE PROPOSED AMENDMENTS TO THE RULES OF THE BOURSE

The objective of the proposed amendment is to increase the price fluctuation increment to such an extent that the risks to market makers, liquidity providers and other such market participants of posting two-sided markets will be mitigated. The end goal is to further liquidity and stimulate trading activity on the OIS contract.

V. PUBLIC INTEREST

The proposed amendments will benefit participants by enticing market makers and liquidity providers to post two-sided markets on the OIS contract, thereby enhancing liquidity and investor confidence in the contract. Furthermore, as there is no open interest on the contract, no market participants will be disadvantaged by the proposed change.

VI. PROCESS

The proposed amendment will be presented for approval to the Rules and Policies Committee of the Bourse at the next meeting of the Committee on May 9, 2013, and will be transmitted to the *Autorité des marchés financiers* (AMF) as well in accordance with the self-certification process. These modifications will also be transmitted to the Ontario Securities Commission (OSC) for information.

VII. REFERENCES

CME Group

http://www.cmegroup.com/trading/interest-rates/stir/30-day-federal-fund_contract_specifications.html

NYSE LIFFE

<https://globalderivatives.nyx.com/stirs/nyse-liffe/eonia>

ASX

http://www.sfe.com.au/content/aboutsfe/brochures/013_cashrate.pdf

VIII. ATTACHED DOCUMENTS

- Revised OIS contract specifications

OIS – Overnight Index Swap Futures

Trading Unit	Each contract shall be for a nominal value of C\$5,000,000.
Underlying	The compounded daily overnight repo rate (CORRA) quoted in terms of an overnight repo rate index.
Fixed Rate and Floating Rate of the Swap	Fixed for floating interest rate swap where a fixed rate is swapped against a floating rate. The floating rate is the compounded daily overnight repo rate (CORRA) over the period of the contract month.
Contract Months	Contract months will be listed to match the Bank of Canada's schedule of Fixed Announcement Dates.
Price Quotation	<p>Index: 100 – R</p> <p>R = the compounded daily overnight repo rate (CORRA) for the contract month. It is calculated in accordance with the following formula:</p> $R = \left[\prod_{i=1}^{d_o} \left(1 + \frac{ORR_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d} \times 100$ <p>where:</p> <p>“d_o”, the number of Business Days in the calculation period;</p> <p>“i” is a series of whole numbers from one to d_o, each representing the relevant Business Day in chronological order from, and including, the first Business Day in the relevant Calculation Period;</p> <p>ORR_i = Overnight Repo Rate (CORRA) on the i^{th} day of the calculation period (if the i^{th} day is not a business day, the previous available CORRA is used);</p> <p>“n_i” is the number of calendar days in the relevant Calculation Period on which the rate is ORR_i;</p> <p>“d” is the number of calendar days in the relevant Calculation Period.</p>
Last Trading Day	The day of a Bank of Canada Fixed Announcement Date.
Contract Type	Cash settlement.
Minimum Price Fluctuation	<p><u>0.005 = C\$31.25 (one-half of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis).</u></p> <p>0.001 = C\$6.25 (one-tenth of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis).</p>

Reporting Limit	300 contracts.
Position Limits	Information on position limits can be obtained from the Exchange as they are subject to periodical changes.
Final Settlement Price	<p>The final settlement price shall be determined by the Bourse and shall be equal to 100 minus the compounded daily overnight repo rate (CORRA) expressed in terms of an overnight repo rate index and calculated over the period of the contract month that begins the day following the last Bank of Canada Fixed Announcement Date to the day of the next Bank of Canada Fixed Announcement Date. Weekend and holiday rates are considered to be the rate applicable on the previous business day for which a rate was reported. For example, Friday's rate is used for Saturday and Sunday rates.</p> <p>The daily overnight repo rate (CORRA) is calculated and reported by the Bank of Canada.</p> <p>The final settlement price is rounded to the nearest 1/10th of one basis point (0.001). In the case a decimal fraction ends with 0.0005 or higher, the final settlement price shall be rounded up</p> <p>The final settlement price is determined on the first business day following the last day of trading.</p>
Minimum Margin Requirements	Information on minimum margin requirements can be obtained from the Exchange as they are subject to periodical changes.
Daily Price Limit	None
Trading Hours (Montréal time)	<p>Early session: 6:00 a.m. to 7:45 a.m. Regular session: 8:00 a.m. to 3:00 p.m. Extended session*: 3:09 p.m. to 4:00 p.m. * There is no extended session on the last trading day of the expiring contract month.</p> <p>Note: During early closing days, the regular session closes at 1:00 p.m., time at which the daily settlement price is established. In those circumstances, the extended session is from 1:09 p.m. to 1:30 p.m.</p>
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	OIS