☐	Trading – Interest Rate Derivatives	☐	Back-office - Options
☐	Trading – Equity and Index Derivatives	☐	Technology
☐	Back-office – Futures	☒	Regulation
		☐	MCeX

CIRCULAR
December 1, 2009

REQUEST FOR COMMENTS

MODIFICATION TO THE DELIVERY STANDARDS

FIVE-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (CGF)

AMENDMENT TO ARTICLE 15613 OF RULE FIFTEEN OF BOURSE DE MONTRÉAL INC.

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved modifications to paragraph i) of article 15613 of Rule Fifteen of the Bourse in order to allow the Bourse the flexibility to exclude any newly issued Government of Canada (GoC) bond from the basket of deliverable bonds or to exclude from the basket of deliverable bonds any GoC bond that the Bourse deems preferable to exclude and this even if this bond satisfies the delivery standards specified in article 15613. More particularly, this flexibility will allow the Bourse to be able to exclude from the deliverable bonds basket GoC bonds that have liquidity problems. As a result of the proposed change, the Bourse will be better positioned to promptly react and adapt to changing market conditions in the underlying GoC bond market.

Comments on the modifications to the delivery standards for GoC Bond futures contracts must be submitted within 30 days following the date of publication of this notice, at the latest on **December 31, 2009**. Please submit your comments to:

Mr. François Gilbert
Vice-President, Legal Affairs (Derivatives)
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca

Circular no.: 180-2009

A copy of these comments shall also be forwarded to the Autorité to:

Ms. Anne-Marie Beaudoin
Secrétaire de l'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Appendices

For your information, you will find in appendices an analysis document of the proposed modifications as well as the proposed regulatory text. We also include a copy of the modifications to be made to the GoC 5-year bond futures contract (CGF) specification sheet as a result of the proposed regulatory modifications. The implementation date of the proposed modification will be determined by the Bourse, in accordance with the self-certification process as established in the Derivatives Act, L.R.Q., c. I-14.01.

Process for Changes to the Rules

Bourse de Montréal Inc. is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (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 its Rules. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as established in the Derivatives Act, L.R.Q., c. 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 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, among which, the Rules relating to margin and capital requirements. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules with recommendation from the Special Committee.

MODIFICATION TO THE DELIVERY STANDARDS

FIVE-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (CGF)

AMENDMENT TO ARTICLE 15613 OF RULE FIFTEEN OF BOURSE DE MONTRÉAL INC.

Bourse de Montréal Inc. (the Bourse) re-launched the CGF on April 17, 2009, as part of the Bourse's 2009 initiatives. The CGF was an effort to capitalize on extending the Bourse's product coverage of the Government of Canada (GoC) yield curve, thereby providing participants with increased spread trading opportunities.

At the time, it was decided to re-launch the contract in its original form, keeping the contract specifications identical to those that were established in 2000 given the high dollar amount outstanding of deliverable GoC bonds in the underlying cash market.

However, it has been reported by both potential market makers and buy side clients that the cheapest to deliver bond in the CGF basket of deliverables is an illiquid bond that is difficult to get a hold of. Removing from the CGF basket of deliverables bonds that were originally issued as 10-year GoC bonds would make the CGF more efficient for market participants to use.

I. OVERVIEW

a) Proposed Amendment

It is proposed to amend paragraph i) of article 15613 of Rule Fifteen of the Rules of the Bourse in order to allow the Bourse the flexibility to exclude any newly issued GoC bond from the basket of deliverable bonds or to exclude from the basket of deliverable bonds any GoC bond that the Bourse deems preferable to exclude and this even if this bond satisfies the delivery standards specified in article 15613. As a result of the proposed change, the Bourse will be better positioned to promptly react and adapt to changing market conditions in the underlying GoC bond market.

In order to allow the Bourse to use such flexibility as quickly as possible and consequently to allow the CGF contract to be more actively traded, the Bourse proposes to amend paragraph i) of article 15613 by deleting therefrom the following words that appear at the beginning of this paragraph: "*Before a contract is listed for trading, (...)*".

The current wording of paragraph i) of article 15613 causes a problem in the sense that the Bourse effectively has the discretion to exclude any specific bond from the deliverable bond basket, but on the condition that it do so only prior to listing a new contract. If we take the CGF contract as an example, the contracts currently listed are those for December 2009 and March, June and September 2010. This means, according to the current wording of paragraph i) of article 15613, that the Bourse cannot exclude any bond from the basket of deliverable bonds for the listed contract. Hence, the Bourse will have to wait until the listing of the December 2010 CGF contract to exclude a specific bond. With the proposed amendment, the Bourse would have the flexibility to exclude a specific bond from the basket of deliverable bonds not only prior to the listing of a new contract, but also for contracts that are currently listed when deemed necessary.

As soon as the proposed amendment is implemented, the Bourse intends to exclude from the basket of deliverable bonds for the CGF contract those bonds that were originally issued at 10-year GoC bond auctions in reason of the fact that, for the purpose of this contract, these bonds, although being the cheapest to deliver, are difficult to get a hold of in the cash market. The Bourse intends to make the proposed change effective starting with the March 2010 CGF futures contract month as well as for all subsequent contract months. There is currently no volume or open interest in the March 2010 CGF futures contract or in the subsequent contract months that are currently listed. The Bourse proposes this amendment to encourage an increase in the utilization of the CGF and make its market more efficient.

II. RATIONALE

Following a consultative process with market participants, they recommended to the Bourse that the delivery standards of the CGF be changed by removing from the basket of deliverable bonds those bonds that were originally issued at 10-year Government of Canada bond auctions.

Several factors justify modifying the delivery standards for the CGF contract:

a) There are liquidity issues with bonds in the CGF basket of deliverables that were originally issued at 10-year GoC bond auctions

The CGF basket of deliverable bonds includes bonds that were originally issued at 10-year GoC bond auctions. Despite a large amount outstanding, old 10-year GoC bonds that are part of the CGF basket of deliverable bonds are not actively traded in the cash market as they have been accumulated by institutional investors for the purpose of holding them until maturity. Consequently, a large part of these issues is not readily available in the market and it becomes difficult for participants to obtain these bonds for the purpose of executing basis trades or cash and carry trades using the CGF contract.

For illustrative purposes, the following table lists the basket of deliverable bonds for the CGF bond futures contract comprised of only 5-year GoC bonds that meets the new delivery standards:

Table I: CGF Basket of deliverables with only 5-year GoC bonds – Proposed

Government of Canada Bonds			**5-year GoC Futures Contract Month - CGF**			
Coupon	Maturity	Issue Type	**march 2010**	**june 2010**	**sept 2010**	**dec 2010**
3,00%	june 2014	5-year	16,000	16,000	16,000	16,000
2,00%	dec 2014	5-year	15,000	15,000	15,000	15,000
Total Outstanding (C$ billion)			31,00	31,00	31,00	31,00

denotes cheapest-to-deliver bond issue

Source: Montréal Exchange Research Department

b) The cheapest-to-deliver bond is always an old 10-year GoC bond that suffers from liquidity issues

Given current market conditions where yields of 5-year GoC bonds - currently at 2.75% as at October 29, 2009 - are considerably below the notional coupon of 6%, shorter duration bonds are favoured as the cheapest-to-deliver bond for the CGF contract.

Consequently, the cheapest-to-deliver bond is always an old 10-year GoC bond that does not actively trade in the cash market – reducing the efficiency of the CGF, as illustrated in Table II.

Table II: CGF Basket of deliverables cheapest-to-deliver bond – Current situation

Government of Canada Bonds			**5-year GoC Futures Contract Month - CGF**			
Coupon	Maturity	Issue Type	**march 2010**	**june 2010**	**sept 2010**	**dec 2010**
5,00%	june 2014	10-year	9,753	9,753	9,753	9,753
3,00%	june 2014	5-year	16,000	16,000	16,000	16,000
2,00%	dec 2014	5-year	15,000	15,000	15,000	15,000
4,50%	june 2015	10-year	10,143	10,143	10,143	10,143
Total Outstanding (C$ billion)			50,896	50,896	50,896	50,896

denotes cheapest-to-deliver bond issue

Source: Montréal Exchange Research Department

c) The supply of 5-year GoC bonds is sufficiently large to support a basket of deliverables without the inclusion of old 10-year GoC bonds

In light of the Government of Canada's substantial increase in bond issuances as part of its debt program for 2009/10 to finance the forecasted financial requirement of over C$100 billion, there has been a considerable increase in the supply of GoC bonds targeted at each segment of the curve.

With the benchmark target size of 5-year GoC bonds established by the GoC (at between C$9-12 billion) largely exceeded, the CGF basket of deliverable bonds is sufficiently large if it was designed to include only GoC bonds that were originally issued at 5-year GoC bond auctions – thereby, excluding old 10-year GoC bonds from the basket of deliverable bonds.

For example, the amount outstanding of the benchmark 5-year GoC issue is currently C$16 billion and the amount outstanding of all eligible bonds in the CGF basket of deliverable bonds under the new proposal will be at least C$31 billion – which does not take into consideration the supply of soon to be auctioned 5-year GoC bonds.

Moreover, there has been an increase in the number of issuances of 5-year GoC bonds relative to previous years. In fact, the number of issuances of 5-year GoC bonds has increased from six (6) – for a total amount issued of C$18 billion - in 2008 to eight (8) – for a total amount issued of C$28 billion - through October 30, 2009.

III. SUMMARY OF THE PROPOSED AMENDMENT

Paragraph i) of article 15613 of Rule Fifteen

The Bourse proposes to amend paragraph i) of article 15613 of Rule Fifteen to allow the Bourse to exclude from the basket of deliverable bonds for the CGF contract bonds that were originally issued at auctions for 10-year Government of Canada bonds and to give to the Bourse the flexibility to exclude from the basket of deliverable bonds not only any newly issued GoC bond but also any GoC bonds that are currently in the basket of deliverable bonds for any of the GoC bond futures contracts listed on the Bourse, even if these bonds meet all the standards specified in the Rule.

This proposed amendment will also afford the Bourse with the flexibility to quickly respond and adapt to changing market conditions in the underlying GoC bond market for all the Bourse's GoC Bond futures contracts.

IV. OBJECTIVE OF THE PROPOSED AMENDMENT

The objectives of the proposed amendment to paragraph i) of article 15613 of Rule Fifteen of the Bourse are to allow the Bourse to be able to remove from the CGF basket of deliverable bonds illiquid bonds that were originally issued at 10-year Government of Canada bond auctions to make the CGF more efficient for market participants to use, as well as provide the Bourse with the necessary flexibility to quickly respond to changing market conditions in the underlying GoC bond market.

V. PUBLIC INTEREST

This amendment to the Rules of the Bourse is proposed in order to make the use of the CGF contract more efficient for market participants who have expressed their support to remove from the basket of deliverable bonds those bonds that were originally issued at 10-year Government of Canada bond auctions for the purpose of improving their trading and/or risk management strategies. Furthermore, it is in the public's interest that the Bourse be granted the flexibility to adapt quickly to changing market conditions in the underlying GoC bond.

VI. PROCESS

The proposed amendment is submitted to the Rules and Policies Committee of the Bourse for approval. Once the approval has been obtained, it will then be transmitted to the Autorité des marchés financiers (AMF) in accordance with the self-certification process and to the Ontario Securities Commission (OSC) for information. The proposed amendment will also be published for a 30-day comment period.

VII. ATTACHED DOCUMENTS

- Rule Fifteen of Bourse de Montreal Inc.: amendment to paragraph i) of article 15613
- For information: CGF specifications

APPENDIX B

GOVERNMENT OF CANADA BOND FUTURES

Section 15601 - 15700
Specific Trading Provisions

15613 Delivery Standards
(08.09.89, 20.11.89, 05.03.90, 01.07.92, 01.10.92, 12.07.94, 19.01.95, 05.08.97, 06.11.97, 22.12.99, 03.05.04, 17.11.04, 24.07.06, 16.11.07, XX.XX.XX)

a) For the 10-year Government of Canada Bond Futures contract shall be deliverable only those Government of Canada bond issues which:

i) have a remaining maturity of between 8 and 10½ years, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete periods of three months, by rounding down to the nearest entire three-month period, e.g. 10 years and seven months shall be considered 10½ years from the first day of the delivery month);

ii) have an outstanding amount of $3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);

iii) are originally issued at 10-year auctions (a bond not issued at a 10-year auction which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of $3.5 billion);

iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;

v) have a face value at maturity in multiples of CAN $100,000; and

vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.

b) For the 5-year Government of Canada Bond Futures contract, shall be deliverable only those Government of Canada bond issues which:

i) have a remaining maturity of between 3 years 6 months and 5 years 3 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 4 years 5 months and 14 days shall be considered 4 years and 5 months from the first day of the delivery month);

ii) have an outstanding amount of $3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);

iii) have an original maturity of not more than 5 years and 9 months (an issue which has an original maturity of more than 5 years and 9 months and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of $3.5 billion, or if it was deliverable in the 10-year Government of Canada Bond Futures contract);

iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;

v) have a face value at maturity in multiples of CAN $100,000; and

vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.

c) For the 2-year Government of Canada Bond Futures contract, shall be deliverable only those Government of Canada bond issues which:

i) have a remaining maturity of between 1 year 6 months and 2 years 6 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 2 years 1 month and 14 days shall be considered 2 years and 1 month from the first day of the delivery month);

ii) have an outstanding amount of $3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);

iii) are originally issued at 2-year, 5-year or 10-year Government of Canada bond auctions (a bond which has not been originally issued at a 2-year, 5-year or 10-year Government of Canada bond auction and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of $3.5billion);

iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;

v) have a face value at maturity in multiples of CAN $100,000; and

vi) have a coupon of 6%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 6% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 6% coupon and selling at par.

d) For the December 2006 2-year Government of Canada Bond Futures contract and for subsequent contract months, shall be deliverable only those Government of Canada bond issues which:

i) have a remaining maturity of between 1 year 6 months and 2 years 6 months, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete one month increments, by rounding down to the nearest entire one month period. e.g. 2 years 1 month and 14 days shall be considered 2 years and 1 month from the first day of the delivery month);

ii) have an outstanding amount of $2.4 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);

iii) are originally issued at 2-year, 5-year or 10-year Government of Canada bond auctions (a bond which has not been originally issued at a 2-year, 5-year or 10-year Government of Canada bond auction and which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of $2.4 billion);

iv) are issued and delivered on or before the 15th day preceding the first Delivery Notice Day corresponding to the delivery month of the contract;

v) have a face value at maturity in multiples of CAN $200,000; and

vi) have a coupon of 4%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 4% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 4% coupon and selling at par.

e) For the 30-year Government of Canada Bond Futures contract shall be deliverable only those Government of Canada Bond issues which:

i) have a remaining maturity of between 21 and 33 years, as of the first day of the delivery month (for the purpose of determining the maturity of a bond eligible for delivery and for settlement, the time to maturity of a given issue shall be calculated in complete periods of three months, by rounding down to the nearest entire three-month period, e.g. 30 years and seven months shall be considered 30½ years from the first day of the delivery month);

ii) have an outstanding amount of $3.5 billion nominal value (net of all potential purchases by the Government of Canada up until the end of the period during which the bond issue is deliverable);

iii) are originally issued at 30-year auctions (a bond not issued at a 30-year auction which would otherwise meet the standards of this rule, is also deemed to be deliverable, if during the last 12-month period preceding the first Delivery Notice Day of the contract month, its reopenings total a minimum nominal amount of $3.5 billion);

iv) are issued and delivered on or before the 15th day preceding the first delivery notice day corresponding to the delivery month of the contract;

v) have a face value at maturity in multiples of CAN $100,000; and

vi) have a coupon of 4%. However, at the seller's choice, a Government of Canada Bond having a coupon other than 4% can be substituted. The amount of premium or discount for each deliverable issue shall be calculated on the basis of a yield equivalent to a Government of Canada Bond bearing a 4% coupon and selling at par.

f) The price of a deliverable Government of Canada Bond shall be determined according to the conversion factors tables published by the Bourse.

The conversion factor of a deliverable issue is the actualized value of the deliverable issue to the notional yield of the futures contract considered on the first day of the delivery month, minus the interest accrued until delivery day.

g) The amount to be paid at delivery is equal to $1,000 ($2,000 for the December 2006 2-year Government of Canada Bond Futures contract and for subsequent contract months) multiplied by the conversion factor of the deliverable issue and multiplied by the settlement price of the futures contract being delivered, plus accrued interests to the delivery day. Accrued interest is charged to the approved participant taking delivery.

h) All Government of Canada Bonds being delivered in respect of a futures contract must be of the same issue.

i) ~~Before a contract is listed for trading, t~~The Bourse shall have the right to exclude any deliverable Government of Canada bond issue, even if it meets all the standards specified in this Rule.

Specifications

CGF - Five-Year Government of Canada Bond Futures Contract

Trading Unit	C$100,000 nominal value Government of Canada Bond with 6% notional coupon
Contract Months	March, June, September and December.
Price Quotation	Par is on the basis of 100 points, with one point equal to C$1,000.
Last Trading Day	Trading ceases at 1:00 p.m. (ET) on the seventh business day preceding the last business day of the delivery month.
Contract Type	Physical delivery of eligible Government of Canada Bonds.
Delivery Notices	Delivery notices should be submitted before 5:30 p.m. or before such time set by the clearing corporation on any business day, between the third business day preceding the first business day of the delivery month, and the third business day preceding the last business day of the delivery month inclusively.
Delivery Date	Delivery shall be made on the third business day following the submission of the delivery notice by the member holding a seller's position or on any other day as determined by the clearing corporation. Delivery shall be completed no later than the last business day of the delivery month.
Minimum Price Fluctuation	0.01 = C$ 10 per contract.
Reporting Level	250 contracts.
Position Limits	Information on position limits can be obtained from Bourse de Montréal Inc. as they are subject to periodic changes.
Minimum Margin Requirements	Information on Minimum Margin Requirements can be obtained from the Bourse as they are subject to periodic changes.
Delivery Standards	Government of Canada Bonds which: i) have a remaining time to maturity of between 3 years 6 months and 5 years 3 months as of the first day of the delivery month, calculated by rounding down to the nearest whole month period; ii) have an outstanding amount of at least C$3.5 billion nominal value; iii) are originally issued at five-year ~~or ten-year~~ Government of Canada bond auctions; iv) are issued and delivered on or before the 15th day preceding the first delivery notice day month of the contract.
Daily Price Limit	None
Trading Hours	• Early session: 6:00 a.m. to 8:05 a.m. (ET) • Regular session: 8:20 a.m. to 3:00 p.m. (ET) • Extended session* : 3:06 p.m. to 4:00 p.m. (ET) * There is no extended session on the last trading day of the expiring contract month. 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 1:06 to 1:30 p.m.
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	CGF