NOTICE TO MEMBERS

No. 2010 – 024
April 7, 2010

REQUEST FOR COMMENTS

MODIFICATIONS TO THE SPECIFICATIONS

TWO-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (CGZ)

AMENDMENTS TO ARTICLE C-1602 OF RULE C-16 OF CDCC'S RULES

Summary

The Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved the amendments to article C-1602 of Rule C-16 to accommodate the clearing of the CGZ contract with a 6% notional coupon rate and the exclusion of 5-year and 10-year from the basket of deliverable bonds.

You will find enclosed the analysis document of the proposed rule amendments as well as the proposed regulatory amendments.

Process for Changes to the Rules

CDCC is a recognized self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité) and as such, carries on activities as a clearing house and as an SRO in Québec.

The Board of Directors of CDCC has the power to approve the adoption or amendment of Rules of CDCC. The amendments are submitted to the Autorité for approval.

Comments on the proposed amendments to Rule C-16 of CDCC's Rules must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

Sharon C. Pel
Secretary
Canadian Derivatives Clearing Corporation
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 to:

Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse, P.O. Box 246
800 Victoria Square, 22nd Floor
Montréal, Québec H4Z 1G3
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MODIFICATIONS TO THE SPECIFICATIONS

TWO-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (CGZ)

AMENDMENTS TO ARTICLE C-1602 OF RULE C-16

INTRODUCTION

Following a consultative process with market participants, Bourse de Montréal Inc. (the Bourse) proposes to:

A. Change the notional coupon rate of the CGZ contract from 4% to 6%.

B. Exclude 5-year and 10-year from the basket of deliverable bonds.

The Canadian Derivatives Clearing Corporation Inc. (CDCC) must amend its current Rules to accommodate the Bourse's proposed change.

The Bourse's analysis document "Modification to the specifications of the 2-year government of Canada bond futures contract (CGZ)", is herein attached to provide the background information required to understand the proposed amendment.

I. PROPOSED REGULATORY AMENDMENTS

CDCC must amend article C-1602 of Rule C-16 to accommodate the clearing of the CGZ contract with a 6% notional coupon rate and the exclusion of 5-year and 10-year from the basket of deliverable bonds. Article C-1602 defines the notional coupon and the delivery standards which are specific to the CGZ contract.

We take the opportunity to remove from article C-1602, out-of-date dispositions relative to paragraphs 1) and 2), as well as paragraph 3).

II. OBJECTIVE OF THE PROPOSED AMENDMENTS TO THE RULES OF CDCC

The objective of the proposed amendments to article C-1602 of Rule C-16 of CDCC is to change the notional coupon rate of the CGZ contract from 4% to 6% and to exclude 5-year and 10-year from the basket of deliverable bonds, to respond to market demand from the Bourse's participants.

III. PUBLIC INTEREST

The amendments to the Rules of CDCC are proposed in order to allow the clearing of futures contracts on the CGZ with a 6% notional coupon rate and the exclusion of 5-year and 10-year from the basket of deliverable bonds.

IV. PROCESS

The proposed regulatory amendments are submitted for approval by the CDCC Board. Once the approval has been obtained, they will then be transmitted to the Autorité des marchés financiers in accordance with the self-certification process and to the Ontario Securities Commission for information. They will also be published by CDCC for a request for comments period of 30 days.

V. ATTACHED DOCUMENTS

- Rule C-16 of CDCC: amendment to Article C-1602

- Bourse's analysis document "Modifications to the specifications of the 2-year government of Canada bond futures contract (CGZ)"
- For information: CGZ Specifications

MODIFICATIONS TO THE SPECIFICATIONS

TWO-YEAR GOVERNMENT OF CANADA BOND FUTURES CONTRACT (CGZ)

AMENDMENTS TO ARTICLES 6801 OF RULE SIX AND 15613 OF RULE FIFTEEN OF BOURSE DE MONTRÉAL INC.

On May 3, 2004, Bourse de Montréal Inc. (the Bourse) launched the Two-Year Government of Canada Bond Futures (CGZ). At the time, the CGZ contract size was C$100,000 with a notional coupon of 6%. The CGZ was introduced in 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.

On November 17, 2004, the Bourse amended the delivery terms by 1. Including originally issued 10-year GoC bonds in the basket of deliverables due to the limited amount outstanding of 2-year GoC bond issues and 2. By reducing the minimum price fluctuation from C$0.01 to C$0.005.

On July, 24 2006, the Bourse modified the contract size from C$100,000 to C$200,000 for cost effectiveness considerations and to harmonize the contract size with international peer contracts (CBOT). The notional coupon was reduced from 6% to 4% and the minimum amount outstanding for GoC bond eligible for inclusion in the basket of deliverables was reduced from C$3.5 billion to C$2.4 billion.

Following a consultative process with market participants and to adapt to new market conditions, the Bourse proposes to:

A. Change the notional coupon rate of the CGZ contract from 4% to 6%, and
B. Exclude 5-year and 10-year GoC bonds from the basket of deliverable bonds.

These amendments are supported by the following considerations:

A. Coupon rate of the CGZ contract from 4% to 6% in order to:

- Harmonize the notional coupon rate of the CGZ at a level of 6% with the notional coupon of the 5-year CGF, 10-year CGB and 30-year LGB bond futures contracts listed at the MX);
- Harmonize the notional coupon rate of the CGZ with main international peer contracts;
- Reduce optionality (requested by buy-side clients and market makers) in anticipation of an increase in interest rates;
- Facilitate contract pricing.

B. Exclude 5-year and 10-year GoC bonds from the basket of deliverable bonds in order to:

- Remove illiquid issues (5-year and 10-year), especially when they are the cheapest-to-deliver bond as these bonds are difficult to get a hold of in the cash market, and
- Facilitate basis trades.

I. OVERVIEW

a) Proposed Regulatory Amendments

In order to:

i) change the notional coupon rate from 4% to 6%; and
ii) exclude 5- and 10-year from the basket of deliverable bonds,

The Bourse proposes to amend article 6801 of Rule Six and articles 15613 and 15619 of Rule Fifteen of the Bourse for the CGZ contract. The Bourse intends to make the proposed change effective starting with the **(contract maturity to be determined)** CGZ futures contract month. There is currently no volume or open interest in this contract month. The Bourse proposes these amendments in order to encourage an increase in the utilization of the CGZ contract.

As a result of the proposed changes, the Bourse will be better positioned to promptly react and adapt to changing market conditions in the underlying GoC bond market.

The Bourse intends to make the proposed changes effective starting with the **(contract maturity to be determined)** CGZ futures contract month as well as for all subsequent contract months. The Bourse proposes this amendment to encourage an increase in the utilization of the CGZ and make its market more efficient.

II. RATIONALE

A. Change the notional coupon rate of the CGZ contract from 4% to 6%.

Following a consultative process with market participants, the Bourse proposes to increase the notional coupon rate of the CGZ contract from 4% to 6%.

Several factors support modifying the notional coupon rate:

a) Harmonize with the notional coupon of 6% of the 5-Year Government of Canada Bond Futures Contract (CGF), 10-Year Government of Canada Bond Futures Contract (CGB) and 30-Year Government of Canada Bond Futures Contract (LGB).

Harmonization of the notional coupon to 6% across the GoC bond futures product line will facilitate inter-market spreading between the CGZ, CGF, CGB and the LGB contracts using the implied spread trading functionality for interest rate futures contracts.

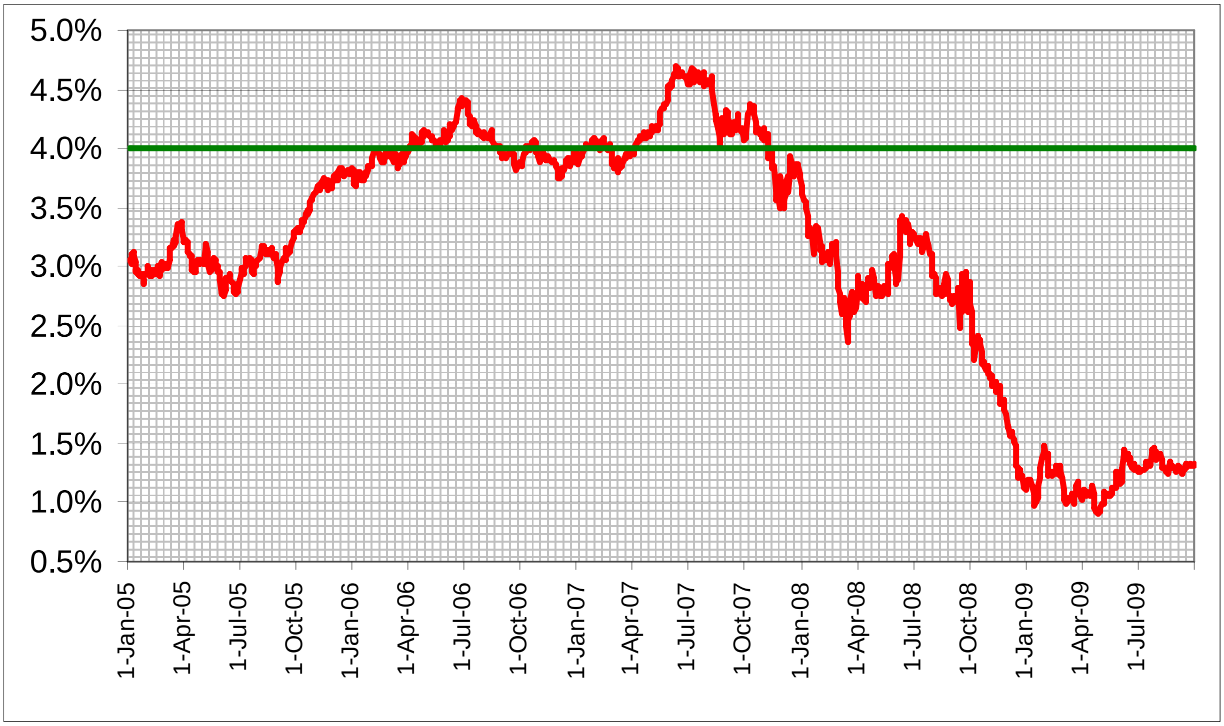
b) Harmonize with the notional coupon of 6% of international peer contracts.

Harmonization of the notional coupon to 6% across the 2-year international Government bond futures products will facilitate inter-market spreading with the Schatz (EUREX) and the 2-year U.S. Treasury Note (CBOT) futures contracts.

c) Problem of optionality and pricing

There have been too many changes of the cheapest-to-deliver bond resulting and too much optionality in the CGZ contract when 2-year Government of Canada yields were close to 4% between March 2006 and November 2007 (see Graph 1 below).

Graph 1: 2-Year GoC Bond Yield
Zero Coupon from January 2005 to December 2009



Source: Bank of Canada

Because yields of 2-year GoC bonds - currently hovering at 1.3% - were too close to the notional coupon rate of 4% of the CGZ contract between March 2006 and November 2007, it significantly increased the probability that the cheapest-to-deliver bond changed for a different bond (increase in optionality) following a small variation in the yields of 2-year GoC bonds. This adversely impacted hedgers since frequent changes in the cheapest-to-deliver bond meant that they had to constantly re-adjust their hedge ratios due to changes in the duration of the cheapest-to-deliver bond, thereby increasing costs. Consequently, hedgers did not actively use the CGZ contract.

Thus, when interest rates will start to increase (interest-rates are mean-reverting) and as long as 2-year yields will not go beyond 6%, the proposed increase of the notional coupon rate of the CGZ contract will favor shorter duration bonds and firmly position the off-the-run 2-year GoC bond as the cheapest-to-deliver bond. A notional coupon of 6% will greatly reduce the probability that the cheapest-to-deliver bond will change, which will benefit hedgers as it will result in much less frequent hedge re-adjustments. This will make the CGZ contract more efficient to use for hedgers.

The contract was too difficult to price with the current coupon of 4% when 2-year yields flirted close to 4%.

When market rates are close to the CGZ contract coupon rate, there is uncertainty in regards to which bond will become the cheapest-to-deliver. This uncertainty makes the contract more difficult to price (i.e., to determine a fair value price). Therefore with yields of 2-year GoC bonds close to 4%, market participants are unwilling to trade the CGZ contract as it becomes difficult to determine a fair value for the contract.

Consequently, as market participants sense that the cheapest-to-deliver bond is about to change, it becomes more difficult for market makers to post fair value bids and offers which in turn leads to inactivity from buy-side market participants who forego trading the CGZ contract as well.

B. Exclude 5- and 10-year GoC bonds from the basket of deliverable bonds.
Following a consultative process with market participants, they recommend to the Bourse that the delivery standards of the CGZ be changed by removing from the basket of deliverable bonds those bonds that were originally issued at 5-year and 10-year GoC bond auctions.

Several factors justify modifying the delivery standards for the CGZ contract.

a. There are liquidity issues with bonds in the CGZ basket of deliverables that were originally issued at 5- and 10-year GoC bond auctions.

The CGZ basket of deliverable bonds includes bonds that were originally issued at 5- and 10-year GoC bond auctions. Despite a large amount outstanding, old 5- and 10-year GoC bonds that are part of the CGZ 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 CGZ contract.

For illustrative purposes, Table 1 lists the basket of deliverable bonds for the CGZ bond futures contract comprised of only 2-year GoC bonds that meets the delivery standards. This is a projection based on past issuances. We observe that the basket always includes 2 issues. Total outstanding amount varies between $12.5 billion and $20 billion.

Table 1: CGZ Basket of Deliverables with Only 2-Year GoC Bonds – Projected

	Dec. 2010	Mar. 2011	June 2011	Sept. 2011	Dec. 2011	Mar. 2012
Sept-2012	10.5					
Mar-2013	3.2	9	9			
June-2013		3.5	10	10		
Sept-2013				10	10	
Dec-2013					9.5	9.5
Mar-2014						9
Total outstanding (C$ billion)	13.7	12.5	19	20	19.5	18.5

Source: Montréal Exchange Research - forecasts based on 2009 issuances (source Bank of Canada)

b. The cheapest-to-deliver bond is often an old 5-year or 10-year GoC bond that suffer from liquidity issues.

Given current market conditions where yields of 2-year GoC bonds (at 1.28% as at January 11, 2010) are considerably below the notional coupon of 6%, shorter duration bonds are favoured as the cheapest-to-deliver bond for the CGZ contract.

Consequently, the cheapest-to-deliver bond is frequently an old 5- or 10-year GoC bond that does not actively trade in the cash market-reducing the efficiency of the CGZ, as illustrated in Table 2, where an originally issued at 5-year auction (i.e. CAN 3.75% 9/11) is the cheapest-to-deliver bond.

Table 2: CGZ Basket of Deliverables Bonds – March 2010 Contract - Current Situation

Cheapest to Deliver Trade 1/11/10 Dlv 3/31/10

CAN 2YR BOND FUT Mar10 **CVHO** 103.910 Set 1/13/10 Cheapest IRP= .60

77 Days Act/365

Order DR re-sort? Y	(Mid) Price	Source	Conv. Yield	C.Factor	DECIMAL Gross Basis	Implied Repo%	Actual Repo%	DECIMAL Net Basis
MASTER:							.42	
1) CAN 3 ¾ 09/01/11	104.210	RBCS	1.135	.996400	.674	.60	.42	-.039
2) CAN 1 09/01/11	99.767	RBCS	1.145	.956700	.356	-.67	.42	.230
3) CAN 1 ¼ 12/01/11	99.890	RBCS	1.309	.953900	.770	-2.40	.42	.596
4) CAN 5 ¼ 06/01/12	108.527	RBCS	1.587	1.026600	1.853	-3.24	.42	.843
5) CAN 1 ½ 03/01/12	100.054	RBCS	1.474	.952400	1.090	-3.66	.42	.863
6) CAN 3 ¾ 06/01/12	105.014	RBCS	1.596	.994600	1.665	-3.93	.42	.968
7) CAN 2 09/01/12	100.598	RBCS	1.766	.952900	1.582	-5.41	.42	1.242

Source: Bloomberg L.P

c. The supply of 2-year GoC bonds is sufficiently large to support a basket of deliverables without the inclusion of old 5-year and 10-year GoC bonds.

In light of the Government of Canada's substantial increase in bond issuances as part of its debt program for 2010/11 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.

Gross GoC bond issuance for 2009-10 is projected to be about 25% higher than the $82 billion announced in the *Debt Management Strategy* 2009-10. This is higher than the $75 billion issued in 2008-09, and the $34 billion in 2007-08.

In 2009-10, additional March and September maturities have been added in the 2-year sector.

With the benchmark target size of 2-year GoC bonds maintained by the GoC at between C$7-C$10 billion, the CGZ basket of deliverable bonds is sufficiently large if it was designed to include only GoC bonds that were originally issued at 2-year GoC bond auctions - thereby, excluding old 5- and 10-year GoC bonds from the basket of deliverable bonds. Please refer to Table 1.

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

Article 6801 of Rule Six

The Bourse proposes to modify paragraph d) of article 6801 called “Standard Trading Unit” of Rule Six by deleting sub-paragraph i), replace it by the modified sub-paragraph ii) and create a new sub-paragraph ii), to change the notional coupon rate of the CGZ contract from 4% to 6%.
We would like to take the opportunity to remove from article 6801, dispositions relative to contract specifications in application before December 2006, since these dispositions are out-of-date.

Articles 15613 and 15619 of Rule Fifteen

The Bourse proposes to modify article 15613 of Rule Fifteen by deleting paragraph c), replacing it by paragraph d) modified and adding a paragraph d), and to modify sub-paragraph b) ii) of article 15619 to change the notional coupon rate of the CGZ contract from 4% to 6% and to allow the Bourse to exclude from the basket of deliverable bonds, bonds that were originally issued at auctions for 5- and 10 years GoC bonds.

We would like to take the opportunity to remove from article 15613, dispositions relative to contract specifications in application before December 2006, since these dispositions are out-of-date.

Concerning article 15613, paragraph g) also contains references to specifications that are out-of-date since 2006 and that we propose to remove.

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

The objectives of the proposed amendments of article 6801 of Rule Six and articles 15613 and 15619 of Rule Fifteen of the Bourse are to allow the Bourse to be able to change the notional coupon rate of the CGZ contract from 4% to 6% and to remove from the CGZ basket of deliverable bonds illiquid bonds that were originally issued at 5- and 10-year GoC bond auctions to make the CGZ more efficient for market participants.

V. PUBLIC INTEREST

The proposed amendments to the Rules of the Bourse are proposed in order to make the use of the CGZ contract more efficient for market participants who have expressed their support to change the notional coupon rate of the CGZ contract from 4% to 6% and to remove from the basket of deliverable bonds those bonds that were originally issued at 5- and 10-year Government of Canada bond auctions for the purpose of improving their trading and/or risk management strategies.

VI. PROCESS

The proposed amendments to Rules Six and Fifteen are submitted for approval to the Rules and Policies Committee and will then be transmitted to the Autorité des marchés financiers (Autorité) in accordance with the self-certification process and to the Ontario Securities Commission for information. They will also be published by the Bourse for a 30-day comment request period.

VII. ATTACHED DOCUMENTS

- Rule Six: amendments to article 6801
- Rule Fifteen: amendments to articles 15613 and 15619
- For information: CGZ specifications

Specifications

CGZ - Two-Year Government of Canada Bond Futures Contract

Trading Unit	C$200,000 nominal value Government of Canada Bond with ~~4~~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$5,000.
Last Trading Day	Trading ceases at 1:00 p.m. (ET) on the seventh business day preceding the last business day of the delivery month.
Contract Type	Physical delivery of eligible Government of Canada Bonds. See Circulars.
Delivery Notices	Delivery notices should be submitted before 5:30 p.m. or before such time set by the clearing corporation on any business day, between the third business day preceding the first business day of the delivery month, and the third business day preceding the last business day of the delivery month inclusively.
Delivery Date	Delivery shall be made on the third business day following the submission of the delivery notice by the member holding a seller's position or on any other day as determined by the clearing corporation. Delivery shall be completed no later than the last business day of the delivery month.
Minimum Price Fluctuation	0.005 = C$ 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: • have a remaining time to maturity of between 1½ year and 2½ years as of the first day of the delivery month, calculated by rounding down to the nearest whole month period. • have an outstanding amount of at least C$2.4 billion nominal value. • are originally issued at 2-year~~, 5-year or 10-year~~ Government of Canada bond auctions. • are issued and delivered on or before the 15th day preceding the first delivery notice day 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	CGZ

CDCC Rules
RULE C-16 2-YEAR CANADA BOND FUTURES
(SYMBOL - CGZ)

The sections of this Rule C-16 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1602, herein referred to as "2-year Canada Bond Futures".

Section C-1601 Definitions

Notwithstanding Section A-102 for the purposes of 2-year Canada Bond Futures the following terms are as defined:

"Assignment File" means the computer file constructed to enable Tenders to be assigned on a first-in-first-out basis pursuant to Section C-1605.

"Underlying Interest" means Government of Canada Bonds, which meet the criteria established in Section C-1602 of this rule.

Section C-1602 Delivery Standards

(1) ~~i) The delivery unit for 2-year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 1 year six months and no more than 2 years six months from the first calendar day of the Delivery Month, having a coupon rate of 6%, an aggregate face value at maturity of $100,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least $3.5 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which have been originally issued at 2-year, 5-year or 10-year Government of Canada bond auctions. All bonds in a delivery unit must be of the same issue.~~

~~i~~i) The delivery unit for the ~~December 2006~~ 2-year Canada Bond Futures expiring before (contract maturity to be determined) ~~and for subsequent contract months~~ shall be Government of Canada Bonds which do not mature and are not callable for at least 1 year six months and no more than 2 years six months from the first calendar day of the Delivery Month, having a coupon rate of 4%, an aggregate face value at maturity of $200,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least $2.4 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which have been originally issued at 2-year, 5-year or 10-year Government of Canada bond auctions. All bonds in a delivery unit must be of the same issue.

ii) The delivery unit for the **(contract maturity to be determined)** 2-year Canada Bond Futures and for subsequent contract months shall be Government of Canada Bonds which do not mature and are not callable for at least 1 year six months and no more than 2 years six months from the first calendar day of the Delivery Month, having a coupon rate of 6%, an aggregate face value at maturity of $200,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least $2.4 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which have been originally issued at 2-year Government of Canada bond auctions. All bonds in a delivery unit must be of the same issue.

(2) ~~i) Substitution - at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 6% are deliverable, at a discount for bonds with coupons less than 6%, and at a premium for bonds with coupons more than 6%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 6% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 6% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be $1,000 multiplied by the product of such price and the Settlement Price of that series of 2-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.~~

~~i~~i) Substitution - For the ~~December 2006~~ 2-year Canada Bond Futures expiring before (contract maturity to be determined)~~and for subsequent contract months~~, at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 4% are deliverable, at a discount for bonds with coupons less than 4%, and at a premium for bonds with coupons more than 4%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 4% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 4% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be $2,000 multiplied by the product of such price and the Settlement Price of that series of 2-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.

ii) Substitution - For the **(contract maturity to be determined)** 2-year Canada Bond Futures and for subsequent contract months, at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 6% are deliverable, at a discount for bonds with coupons less than 6%, and at a premium for bonds with coupons more than 6%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 6% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 6% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be $2,000 multiplied by the product of such price and the Settlement Price of that series of 2-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.

(3) The Exchange on which the Future trades shall publish a list of deliverable issues prior to each Delivery Month. The time to maturity of a given issue is calculated in complete one-month increments (rounded down to the entire one month period) from the first calendar day of the Delivery Month. New issues of Government of Canada bonds which satisfy the standards of this section shall be added to the deliverable list as they are issued by the Government of Canada. In the event that, at any regular issue or auction, the Government of Canada reopens an existing issue which has not been originally issued at a 2-year~~, 5-year or 10-year~~ Government of Canada bond auction but would otherwise meet the standards of this Rule, thus rendering the existing issue indistinguishable from the newly issued one, then the older issue is deemed to meet the standards of this Rule and would be deliverable if the reopening of such an existing issue has a total minimum face value amount of ~~:~~

~~i) $3.5 billion during the last 12 month period preceding the first tender date of the contract month. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this section;~~

~~ii)~~ $2.4 billion during the last 12 month period preceding the first tender date of the contract month~~ for the December 2006 2-year Government of Canada Bond Futures and for subsequent contract months~~. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this section.

(4) In the event the Corporation determines that there exists a shortage of deliverable Government of Canada Bond issues it may designate as deliverable on a 2-year Canada Bond Futures such other Government of Canada issues as it deems suitable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

Amended 11/04, 07/06

Section C-1603 Submission of Tender Notices

(1) A Clearing Member who holds a Short Position in the currently deliverable series and who wishes to make delivery must submit a Tender Notice to the Corporation no later than the time established by the Corporation on a Business Day from two Business Days prior to the first Business Day of the Delivery Month up to and including the second last Business Day preceding the last Business Day of the Delivery Month indicating the maturity of the Government of Canada bonds being delivered.

(2) A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable series shall submit a Tender Notice to the Corporation indicating the maturity of the Government of Canada Bonds being delivered. Such Notice must be tendered no later than the second Business Day preceding the last Business Day of the Delivery Month.

(3) The Clearing Member to whom a delivery has been assigned must confirm to the Corporation that delivery has been completed.

This Section C-1603 supplements Section C-502.

Section C-1604 Delivery Through the Clearing Corporation

(1) Day of Delivery - Delivery of Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the second Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation. Delivery must be made no later than the last Business Day of the Delivery Month.

(2) Time of Delivery - Each Clearing Member who is to make or take delivery of Government of Canada bonds shall do so against or by payment of certified funds by no later than 2:45 p.m. on the Day of Delivery.

(3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefore by the assigned Clearing Member, is not effected by the time provided in Section C-1604(2), such Clearing Member becomes a Non-Conforming Member and must inform the Corporation of such failure of the Non-Conforming Member no later than 3:00 p.m. on the Day of Delivery. The Non-Conforming Member shall notify the Corporation of the default by telephone, with written notification, sent by facsimile transmission, to be provided as soon as possible.

Section C-1605 Assignment of Tender Notice

(1) Tender Notices accepted by the Corporation shall be assigned, at the end of each Business Day on which the Contract Specifications permit Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the day on which the Tender Notice is submitted. Tenders Notices will be assigned in accordance with the Corporation's procedures of assigning Tender Notices to the oldest open contract (First In, First Out).

(2) A Tender Notice shall not be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender Notice assigned to a Clearing Member which is subsequently so suspended shall be withdrawn and thereupon assigned to another Clearing Member in accordance with this Section.

This section C-1605 replaces Section C-505.

C-1606 Assignment File Procedures

The following rule shall apply to the compilation of the Assignment File.

(1) On the sixth Business Day prior to the first Business Day of the Delivery Month each Clearing Member holding Long Positions in the relevant Series of Futures must enter into the Assignment File in the Corporation's computer system all the Clearing Member's Long Positions in that Series of Futures in chronological order.

(2) Prior to the Close of Business on each subsequent Business Day up to and including the next to last Business Day on which Tender Notices may be submitted, each Clearing Member shall access the Assignment File and either make changes to reflect the current chronological order of all Long Positions in the relevant Series of Futures or confirm that the existing Assignment File records are correct.

(3) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation until the Close of Business on every day on which an amendment to the Assignment File can be made.

(4) It shall be the duty of each Clearing Member to review daily the relevant reports available on the Corporation's computer system.

(5) Failure to access the Assignment File and maintain the current chronological order of all the Clearing Member's Long Positions in the relevant Series of Futures on a daily basis or to have an Authorized Representative available by telephone shall be deemed a violation of the procedures of the Corporation and shall be subject to disciplinary action pursuant to the Rules.