



NOTICE TO MEMBERS

No. 2004 - 023

April 20, 2004

NEW INTEREST RATE FUTURES CONTRACT

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

Canadian Derivatives Clearing Corporation ("CDCC") will begin clearing the 2-year Government of Canada Bond Futures contract (CGZ) of Bourse de Montréal Inc. ("the Bourse") on **Monday, May 3, 2004**.

A new CDCC rule (C-16) has been approved for this purpose by *l'Autorité des marchés financiers* and will be effective as of May 3, 2004. You will find attached a copy of this rule.

Please take note on the contract specifications that the 2-year Government of Canada Bond Futures contract (CGZ) has a **T + 2 settlement** for physical delivery of the bond. A separate FIFO Operational Notice will be issued for this product.

Listed below is the symbol and margin interval for the 2-year Government of Canada Bond Futures contract (CGZ)

Symbol	Margin Interval
CGZ	0.47%

For further information please contact your local CDCC office.

Michel Favreau
Senior Vice-President and Chief Clearing Officer



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) 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 or 5-year Government of Canada bond auctions. All bonds in a delivery unit must be of the same issue.
- (2) 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.
- (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

Canadian Derivatives Clearing Corporation

65 Queen Street West	800 Victoria Square
Suite 700	3 rd Floor
Toronto, Ontario	Montréal, Québec
M5H 2M5	H4Z 1A9
Tel. : 416-367-2463	Tel. : 514-871-3545
Fax: 416-367-2473	Fax: 514-871-3530

www.cdcc.ca



issue which has not been originally issued at a 2-year or 5-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 \$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.

- (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.

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

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M5H 2M5	H4Z 1A9
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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.

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- (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.

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