



NOTICE TO MEMBERS

N° 096-22

August 3, 2022

REQUEST FOR COMMENTS

AMENDMENTS TO RULE C-18 AND SECTION 6.6 OF THE OPERATIONS MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION TO MODIFY THE DELIVERY PERIOD OF THE 30-YEAR GOVERNMENT OF CANADA BOND FUTURE CONTRACTS (LGB)

On July 26, 2022, the Board of Directors of Canadian Derivatives Clearing Corporation (“CDCC”) approved certain amendments to CDCC’s Rules in order to align them with the proposed amendments of Bourse de Montréal Inc. to modify the delivery standards to change the remaining maturity range of the 30-Year Government of Canada Bond Futures (“LGB”).

Please find enclosed an analysis document as well as the proposed amendments.

Process for Changes to the Rules

CDCC is recognized as a clearing house under section 12 of the *Derivatives Act* (Québec) by the Autorité des marchés financiers (“AMF”) and as a recognized clearing agency under section 21.2 of the *Securities Act* (Ontario) by the Ontario Securities Commission (“OSC”).

The Board of Directors of CDCC has the power to approve the adoption or amendment of the Rules of CDCC. Amendments are submitted to the AMF in accordance with the self-certification process and to the OSC in accordance with the process provided in the Recognition Order.

Comments on the proposed amendments must be submitted before **September 3, 2022**. Please submit your comments to:

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A copy of these comments shall also be forwarded to the AMF and to the OSC to:

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For any question or clarification, Clearing Members may contact Dima Ghozaiel, Legal Counsel, at dima.ghozaiel@tmx.com.

George Kormas
President



**AMENDMENTS TO RULE C-18 AND SECTION 6.6 OF THE OPERATIONS MANUAL OF THE
CANADIAN DERIVATIVES CLEARING CORPORATION TO MODIFY THE DELIVERY PERIOD OF THE
30-YEAR GOVERNMENT OF CANADA BOND
FUTURE CONTRACTS (LGB)**

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I. DESCRIPTION

Bourse de Montréal (the “Bourse”) hereby proposes to update its rules pertaining to the delivery period on the 30-Year Government of Canada (“GoC”) bond futures (“LGB”) in order to alleviate concerns associated with the embedded wildcard option and improve market efficiency.

To this end, the Bourse proposes to change the delivery period so that it can happen on one single day. Specifically, the Bourse proposes to allow delivery only if a participant has a position at the end of the last trading day of the delivery month, thus reducing any delivery uncertainty and the one-sided appeal of the wildcard option. Therefore, the rules (“Rules”) and the operations manual (“Operations Manual”) of the Canadian Derivatives Clearing Corporation (“CDCC”), which also contain the delivery period of the LGB, need to be modified in order to reflect these proposed changes.

Unless otherwise defined herein, any defined term used in this analysis will have the meaning described in the Rules and the Operations Manual.

II. PROPOSED AMENDMENTS

The proposed amendments to sections C-1802, C-1803, C-1804, C-1805 and C-1806 of the Rules and section 6.6 of the Operations Manual are attached. More specifically, CDCC proposes to replace the current submission of tender notices requirements for the LGB by the following:

Tender Notice period:

Currently the Tender Notice must be submitted between the second Business Day preceding the first Business Day of the Delivery month, and the second Business Day preceding the last Business Day of the Delivery Month, inclusively.

CDCC is suggesting to modify the Rules to indicate that the tender notice must be submitted on the last day of trading.

Delivery period:

Currently, the delivery of LGB shall be done on the second Business Day following the submission of the Tender Notice by the Clearing member holding a Short Position, or on any other day as determined by the Corporation. Delivery shall be completed no later than the last business day of the Delivery Month.

While the delivery process is expected to remain the same, we suggest that the delivery be completed no later than two business days following the submission of the Tender Notice, which, as mentioned above, happens on the last day of trading.

Assignment of Tender Notice and Assignment File:

Currently all Tender Notices accepted by the Corporation (over the Tender Notice period) are assigned in accordance with the Corporation procedures of assigning Tender Notices to the oldest open contract (First In, First Out or FIFO).

Under the proposed change, all Tender Notices will be assigned directly (without any FIFO Period) to Clearing Members with open Long Positions as of the close of trading on the last trading day. Furthermore, the Assignment File in CDCS will not need to be updated anymore to that effect.

III. ANALYSIS

a. Background

The Bourse proposes to update its rules pertaining to LGB delivery standards as it considers that a well-functioning LGB market is desirable for the growth of its products and wants to ensure that its contract design is in line with the needs of market participants. CDCC refers to the following extracts of the Bourse's detailed analysis pertaining to this modification to the LGB delivery standards for additional background information on the proposed amendments:

The Bourse relaunched the LGB contract via a new market making program in November 2021 with a few adjustments to the contract specifications earlier in the year. After a reasonable start in the first few months (average daily volume of 500 contracts, open interest reaching 3,500 contracts), the first roll period and delivery month brought some challenges to market participants, which led some key early supporters to exit the market. As a result, statistics for the LGB contract deteriorated since March 2022, with daily volume and open interest averaging 270 and 1,480 contracts respectively since then.

In a recent article,¹ the Bourse covered the specific characteristics of the LGB contract including the embedded wildcard option. That option refers to a right held by the seller of the futures contract that permits the seller to wait until after-hours trading before delivering its bonds to the futures contract buyer. By standards and after consultation with market participants, the potential wildcard premium under the LGB contract seems to far offset the one under comparable bond futures contracts, namely CGZ, CGF and CGB - in part due to the LGB's lower conversion factor. In the Bourse's view, reducing the delivery period would help restrain the market impact of the wildcard option, disliked by many participants and as such help stimulate the market.

Because bond prices can still move after 3pm and before 5:30pm, investors can profit from a wildcard exercise and, in a number of cases, the delivery experience is not optimal for the long position. While the estimated profits tend to be moderate and the time span for delivery makes it difficult to capitalize on the option, the experience may dissuade some participants from trading the LGB contract.

Such a change has not been brought to other products before and will be applied exclusively to the LGB contract - until further notice. In 2020, the Bourse implemented a different modification to the LGB by altering the time to maturity criteria of the delivery standards. While the nature of the objective is different, the ultimate goal is aligned and aims at simplifying the product's delivery standards.

¹ LGB: A primer for CGB Users, available at https://m-x.ca/f_publications_en/lgb_primer_en.pdf

b. Objectives

CDCC's Rules need to be aligned with the changes proposed by the Bourse. The objective of the proposed amendment is to make the contract more attractive to key users, in order to help the product grow and build enough critical initial liquidity. By changing the delivery period and linking it to the last day of trading, the Bourse believes the delivery process associated with the LGB contract will be more transparent and more convenient for users trading it. The Bourse aims to provide the market with an attractive LGB contract that meets the needs of its initial supporters, in an effort to grow volume and open interest.

c. Comparative Analysis

The Bourse and CDCC believe that the proposed modifications on the LGB contract do not deviate from international product specifications, although most exchanges (ICE Futures, CME) tend to have interval periods for the delivery process similar to the current Bourse process.² Eurex-Buxl bond futures notice day occurs on the last Trading day and the delivery day is restricted to one day making the contract comparable to our new proposal.

Based on this international benchmarking, the Bourse and CDCC consider that the proposed modifications would make the delivery process similar to that of the Eurex for its bond futures product suite.

We also note that the delivery period for US treasury bond futures is not the same for all contracts. In particular, the delivery period for short and medium term US treasury bond futures (2-year to 5-year) is about one week longer than that of longer term (10-year and 30-year).³ This example is another evidence that delivery periods are not necessarily standardized for a given set of bond futures products, as can be observed in the well-developed US bond futures market.

d. Analysis of Impacts

i. Impacts on Market

Impacts on existing contracts

In order to make the transition as smooth as possible, the Bourse suggests applying the delivery change only to contracts with no existing open interest. To ensure participants are well informed of these changes, the Bourse and CDCC expect to communicate these adjustments accordingly (e.g: notice and discussions with key users).

Market perception and cross-market activity

Consultations with key participants reveal that such a change could significantly help develop the LGB product. Market stakeholders support the idea of having only one day where you can get assigned for delivery since that removes the implicit uncertainty. Considering the limited volume

² Source: Contract specification on exchanges websites (TMX, ICE, Eurex, CME)

³ <https://www.cmegroup.com/trading/interest-rates/files/us-treasury-futures-delivery-process.pdf>

and open interest associated with the LGB contract, the Bourse and CDCC believe the impact on market participants should be minimal. Rather, the proposed delivery adjustment aims to reduce the impact of embedded options, currently detrimental to a well-functioning LGB market.

The expected downside, however, is that altering the delivery to the last day of trading would reduce the potential for recovery in the event of an error for key participants. Even so, this situation already exists as of the last day of trading, as participants having positions at the end of that day would automatically go into the delivery process. The Bourse and CDCC expect the reduced uncertainty and improved market perception to outweigh the potential challenges of reduced operational leeway during the delivery process.

In addition, the new specifications might lead to new dynamics in the cash market (1pm+ on the last trading day) following the settlement of the LGB contract. If a significant amount of contracts goes into delivery, both buyers and sellers could get active in the 30Y cash market to sell/buy the delivery tail. This might also improve the roll price based on discussions with fixed income players, which is an expected benefit.

Impacts on CDCC risk requirements

The proposed change in the delivery period does not impact the Base Initial Margin and the Additional Margin methodologies as described in the CDCC Risk Manual. No other impacts are expected on the size of the Clearing Fund and Supplemental Liquidity Fund.

For the Base Initial Margin, the historical daily price returns that are used to calibrate the Base Initial Margin will not be updated as the estimated impact is not material. It is only when the negotiation of the new contract starts that CDCC will gradually incorporate the daily price returns of the contracts into the model for calibrating the margin rates.

ii. Impacts on Technology

The proposed changes should have a minor impact on the technological systems of CDCC. Clearing Members or other market participants are not impacted on their technological systems.

iii. Impacts on trading functions

Not applicable.

iv. Public Interest

CDCC is of the view that the proposed amendments are not contrary to the public interest.

IV. PROCESS

The proposed amendments, including this analysis, must be approved by CDCC's board of directors and submitted to the Autorité des marchés financiers, in accordance with the regulatory

self-certification process, and to the Ontario Securities Commission in accordance with the rules stated in Appendix “A” of Schedule “C” of CDCC Recognition Order dated April 8, 2014 (as amended from time to time). The proposed amendments and analysis will also be submitted to the Bank of Canada in accordance with the Regulatory Oversight Agreement. Subject to public comments, the proposed amendments will take effect during Q4 2022.

V. ATTACHED DOCUMENTS

Proposed amendments to sections C-1802, C-1803, C-1804, C-1805 and C-1806 of CDCC’s Rules and section 6.6 of CDCC’s Operations Manual.

Proposed amendments to the Rules of CDCC

REVISED VERSION

[...]

Section C-1802 – Delivery Standards

(1) For all 30-year Canada Bond Futures

- (a) The delivery unit for 30-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for a minimum of 28½ years 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 are originally issued at 30-year auctions.

All bonds in a delivery unit must be of the same issue.

- (b) 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 30 year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.
- (c) 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 three month increments (rounded down to the nearest quarter) from the first 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 bond not issued at a 30-year auction that 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~~~~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.

- (d) 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 30 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-1803 – 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 ~~the last day of trading a Business Day from two Business Days preceding 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 ~~- time established by the Corporation on the last day of trading second Business Day preceding the last Business Day~~ of the Delivery Month.

This Section C-1803 supplements Section C-503.

Section C-1804 – Delivery Through the Central Securities Depository

- (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 two business days following the last day of trading the last Business Day of the Delivery Month.~~
- (2) Time of Delivery - Each Clearing Member who is to make delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).
- (3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the Time of Delivery, Section A-804 shall apply.

Section C-1805 – Assignment of Tender Notice

- (1) Tender Notices accepted by the Corporation shall be assigned, at the end of ~~the last trading day each Business Day~~ on which the Contract Specifications permits Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the ~~last trading day~~ on which the Tender Notice is submitted. ~~Tenders Notices will be assigned in accordance with the Corporations 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-1805 replaces Section C-505.

~~FR~~Section C-1806—Assignment File Procedures

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

- ~~(1) On the sixth Business Day preceding the last day of trading 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 CDCS 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 day of trading 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 CDCS.~~
- ~~(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 Rules pursuant to Paragraph A-1A04(4)(a) and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5.~~

Proposed amendments to the Operations Manual of CDCC

REVISED VERSION

Section 1 - 1 : PREAMBULE AND DEFINITIONS

DEFINITIONS

[...]

“FIFO Period” – the quarterly delivery period for Futures contracts on Government of Canada bonds (with the exception of the LGB), in accordance with Contract Specifications of the relevant Exchange.

[...]

Section 6 - 6 : EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES FUTURES

FUTURES

Submission of Tender Notices

Tender Notices must be submitted before Close of Business during the relevant FIFO Period (which, subject to any contract adjustment by the Exchange, shall be as follows):

CGB, CGF and, CGZ ~~and LGB~~ two Business Days preceding 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.

LGB and MCX before Close of Business on the last trading day.

All outstanding Short Positions in BAX, EMF, SXF, SXM, SCF, Sector Index Futures, Share Futures, and Options on Futures are automatically tendered on the last trading day, as per Contract Specifications, after Close of Business.

All outstanding Short Positions in COA and CRA are automatically tendered on the first Business Day following the last trading day, as per Contract Specifications, after Close of Business.

Assignment of Tender Notices

CDCC assigns all Tender Notices to open Long Positions on a random basis with the exception of the Government of Canada Bond Futures (CGB, ~~LGB~~, CGF and CGZ). Assignments for the CGB, ~~LGB~~, CGF and CGZ Futures are processed on a First-In-First-Out (FIFO) basis.

Delivery of the Underlying Interest and payment of the Settlement Price is effected by Clearing Members as instructed by CDCC.

FIRST-IN-FIRST-OUT (FIFO) ASSIGNMENT PROCESS

Description of Procedures

The Delivery Months for the CGB, CGF ~~LGB~~ and CGZ Futures contracts are March, June, September and December as prescribed by the Exchange. When a Member submits a Tender Notice with respect to a Short Position, a Long Position is assigned on a First-In-First-Out (FIFO) basis. CDCC sends out an Operational Notice prior to each relevant FIFO Period to remind Clearing Members of the procedures involved.

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 declare on the CDCC Clearing Application its Long Positions in chronological order for each of its accounts. The entries must include the date the position was opened, the number of contracts and the account. When CDCC assigns a Tender Notice, the Long Position with the oldest date will be assigned first and the Long Position with the most recent date will be assigned last.

During the FIFO Period, Clearing Members must ensure that they update their declarations on a daily basis before Close of Business.

Proposed amendments to the Rules of CDCC

CLEAN VERSION

[...]

Section C-1802 – Delivery Standards

- (1) For all 30-year Canada Bond Futures
 - (a) The delivery unit for 30-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for a minimum of 28½ years 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 Delivery Month of the contract, and which are originally issued at 30-year auctions.

All bonds in a delivery unit must be of the same issue.
 - (b) 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 30 year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.
 - (c) 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 three month increments (rounded down to the nearest quarter) from the first 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 bond not issued at a 30-year auction that 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 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.

- (d) 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 30 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-1803 – 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 the last day of trading 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 time established by the Corporation on the last day of trading of the Delivery Month.

This Section C-1803 supplements Section C-503.

Section C-1804 – Delivery Through the Central Securities Depository

- (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.
- (2) Time of Delivery - Each Clearing Member who is to make delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).
- (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 of Delivery, Section A-804 shall apply.

Section C-1805 – Assignment of Tender Notice

- (1) Tender Notices accepted by the Corporation shall be assigned, at the end of the last trading day on which the Contract Specifications permits Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the last trading day on which the Tender Notice is submitted.
- (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-1805 replaces Section C-505.

Proposed amendments to the Operations Manual of CDCC

CLEAN VERSION

Section 1 - 1 : PREAMBLE AND DEFINITIONS

DEFINITIONS

[...]

“FIFO Period” – the quarterly delivery period for Futures contracts on Government of Canada bonds (with the exception of the LGB), in accordance with Contract Specifications of the relevant Exchange.

[...]

Section 6 - 6 : EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES FUTURES

FUTURES

Submission of Tender Notices

Tender Notices must be submitted before Close of Business during the relevant FIFO Period (which, subject to any contract adjustment by the Exchange, shall be as follows):

CGB, CGF and CGZ two Business Days preceding 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.

LGB and MCX before Close of Business on the last trading day.

All outstanding Short Positions in BAX, EMF, SXF, SXM, SCF, Sector Index Futures, Share Futures, and Options on Futures are automatically tendered on the last trading day, as per Contract Specifications, after Close of Business.

All outstanding Short Positions in COA and CRA are automatically tendered on the first Business Day following the last trading day, as per Contract Specifications, after Close of Business.

Assignment of Tender Notices

CDCC assigns all Tender Notices to open Long Positions on a random basis with the exception of the Government of Canada Bond Futures (CGB, CGF and CGZ). Assignments for the CGB, CGF and CGZ Futures are processed on a First-In-First-Out (FIFO) basis.

Delivery of the Underlying Interest and payment of the Settlement Price is effected by Clearing Members as instructed by CDCC.

FIRST-IN-FIRST-OUT (FIFO) ASSIGNMENT PROCESS

Description of Procedures

The Delivery Months for the CGB, CGF and CGZ Futures contracts are March, June, September and December as prescribed by the Exchange. When a Member submits a Tender Notice with respect to a Short Position, a Long Position is assigned on a First-In-First-Out (FIFO) basis. CDCC sends out an Operational Notice prior to each relevant FIFO Period to remind Clearing Members of the procedures involved.

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 declare on the CDCC Clearing Application its Long Positions in chronological order for each of its accounts. The entries must include the date the position was opened, the number of contracts and the account. When CDCC assigns a Tender Notice, the Long Position with the oldest date will be assigned first and the Long Position with the most recent date will be assigned last.

During the FIFO Period, Clearing Members must ensure that they update their declarations on a daily basis before Close of Business.