



NOTICE TO MEMBERS

No. 2012 – 017

February 9, 2012

SELF-CERTIFICATION

OMNIBUS PROJECT II

AMENDMENTS TO SECTIONS A-1, A-1A, A-2, A-4, A-6, A-7, A-8, C-11, C-13, C-14, C-16, C-18 AND D-6 OF THE RULES AND TO THE OPERATIONS MANUAL OF CDCC

On August 4, 2011, Canadian Derivatives Clearing Corporation (CDCC) published a Request for Comments proposing certain amendments to the Rules and to the Operations Manual of CDCC.

On November 4, 2011, the Board of Directors of CDCC has approved new versions of amendments to Rules A-1, A-1A, A-2, A-4, A-6, A-7, A-8, C-1104, C-1306, C-1406, C-1606, C-1806 and D-6 and to the Operations Manual of CDCC further to comments received from the authorities and the public after the Request for Comments of August 4, 2011. Additional amendments have been made to Rules A-1, A-2, A-4, A-6, A-7, A-8, C-11, C-13, C-14, C-16 and C-18 following additional comments received from the Autorité des marchés financiers. CDCC wishes to advise Clearing Members that these amendments have been self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

Please find enclosed the amendments which will be in effect and will be incorporated in the version of the Rules of CDCC which will be available on CDCC's web site (www.cdcc.ca) in the morning of February 10, 2012.

For any question or clarification, Clearing Members may contact the CDCC Member Services. Please note that a separate Notice to Members will be published by CDCC showing the additional amendments that have been made to the Rules and to the Operations Manual in Omnibus Project II since the Request for Comments of August 4, 2011.

Glenn Goucher
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CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

AS OF JULY 4, 2011

VERSION OF FEBRUARY 10, 2012

PART A – GENERAL

RULE A-1 DEFINITIONS

Section A-101 Scope of Application

Unless the context otherwise requires or unless different meanings are specifically defined, for all purposes of these Rules the capitalized terms used herein shall have the meanings given them in Section A-102.

Section A-102 Definitions

“Acceptable Instrument Types” or “Acceptable OTCI” – Over-The-Counter Instruments which are determined by the Corporation as acceptable for clearing with the Corporation.

“Acceptable Underlying Interests” – is an Underlying Interest which is determined by the Corporation as acceptable for clearing by the Corporation.

“Acceptable Marketplace” – a bilateral or multilateral marketplace, other than an Exchange, where buyers and sellers conclude transactions in Acceptable Instrument Types including bilateral trades between two Fixed Income Clearing Members and which meets any of the following requirements (i) in the case of a marketplace which is an alternative trading system (“ATS”), it has qualified as such and complies with the applicable requirements of National Instrument 21-101 – Marketplace Operations (“21-101”) and National Instrument 23-101 – Trading Rules (“23-101”) as determined by the Corporation, and (ii) in the case of an inter-dealer bond broker (“IDBB”), it has qualified as such and complies with applicable IROC Rules including IROC Rule 2800 and applicable requirements of 21-101 and 23-101 as determined by the Corporation, and (iii) in the case of bilateral trades between Fixed Income Clearing Members involving an SRO Clearing Member, the SRO Clearing Member complies with applicable requirements of 21-101 and 23-101 as determined by the Corporation.

“Acceptable Security” – a Security determined by the Corporation as acceptable for purposes of clearing a Transaction, a list of which is updated on a bimonthly basis by the Corporation and communicated by notice to Clearing Members.

“Acceptable Treasury Bills” – A short-term debt instrument, having a maturity of less than one year, issued by the Government of Canada and sold at a discount.

“Acceptance Criteria” – the criteria established by the Corporation for acceptance or rejection of an OTCI in accordance with the provisions of Section D-104.

“Additional Deposit” – the additional amount which may be required to be added to a Clearing Fund deposit pursuant to Section A-606.

“Affiliate” – means, in relation to any Clearing Member, any Entity controlled, directly or indirectly, by the Clearing Member, any entity that controls, directly or indirectly, the Clearing Member, or any Entity directly or indirectly under common control with the Clearing Member. For this purpose, “control” of any Clearing Member or Entity means ownership of a majority of the voting power of the Clearing Member or Entity.

“Afternoon Net DVP Settlement Requirement” – has the meaning assigned to this term by Section D-601.

“Afternoon Netting Cycle Timeframe” – has the meaning assigned to this term by Section D-601.

“American Option” (or American Style Option) – an Option which can be exercised at any time from issuance until its Expiration Date.

“Amounts Due” – has the meaning assigned to this term by Subsection D-409(10).

“Application for Membership” – the Application for Membership, which when completed by a Clearing Member candidate and accepted by the Corporation forms the Membership Agreement together with the Rules which are incorporated by reference in and form a part of the Membership Agreement, as such Application for Membership may from time to time be amended, changed, supplemented or replaced in whole or in part.

“Approved Depository” – a financial institution approved ~~under Section~~ by the Corporation to act in such capacity in accordance with the criteria set forth in Subsection A-613212(8).

“Approved Processes” – any ~~system~~ CDCC function for processing Transactions for clearing by the Corporation. CDCC may make available more than one Approved Process in respect of any clearing service.

“Assigned Position” – the position of the Clearing Member in any account for which such Clearing Member is the assigned Clearing Member in such account.

“At-the-Money Option” – a call Option or a put Option with an Exercise Price that is equal to the Market Price of the Underlying Interest.

“Authorized Representative” – a person for whom the Clearing Member has filed evidence of authority pursuant to Section A-202.

“Bank Clearing Member” – a Clearing Member that is a bank to which the Bank Act (Canada), as amended from time to time, applies.

“Base Deposit” – the minimum Clearing Fund deposit required of each Clearing Member pursuant to Section A-603.

“Board” – the Board of Directors of the Corporation.

“Business Day” – any day on which the Corporation is open for business. The term Business Day shall exclude the Expiration Date of any Options which expires on a Saturday.

“By-laws” – the By-laws of the Corporation as the same may be amended from time to time.

“Calculation Agent” – means the Corporation when calculating certain close-out amounts as provided in Subsection A-409(9).

“Call Underlying Interest Deposit” – the deposit by an Approved Depository acting on behalf of a Clearing Member or a client thereof of the Underlying Interest of a call Option to the Corporation through a Central Securities Depository.

“Capital Adequacy Return (CAR)” – the documents specified from time to time by the Office of the Superintendent of Financial Institutions in its guidelines relating to capital adequacy requirements applicable to banks.

~~“CDCC Materials” – any material, data and information developed, created or compiled by the Corporation and provided by the Corporation to the Clearing Members in any form, and including software, trade marks, logos, domain names, documentation, Approved Processes, technical information, systems, hardware and networks made available by the Corporation to the Clearing Members for the use of the clearing systems and electronic transmission systems provided by the Corporation to the Clearing Members.~~

“Cash” – money in the lawful currency of Canada.

“Cash Settlement Amount” – means the amount determined by the Calculation Agent in accordance with Subsection A-409(6).

“Cash Settlement Payment Default” – has the meaning assigned to this term by Subsection A-409(6).

“Cash Settlement Payment Request” – has the meaning assigned to this term by Subsection A-409(6).

“Cash Settlement Amount Calculation Request” – has the meaning assigned to this term by Subsection A-409(6).

“Cash Settlement Amount Calculation Request Date” – has the meaning assigned to this term by Subsection A-409(6).

“CDCC Daylight Credit Facility” – means the daylight credit facility of the Corporation, the amount of which is subject to change from time to time, with prior notice to Clearing Members.

“CDCC Materials” – any material, data and information developed, created or compiled by the Corporation and provided by the Corporation to the Clearing Members in any form, and including the software, trade-marks, logos, domain names, documentation (including the Rules), Approved Processes, technical information, systems (including the clearing systems and electronic transmission systems), hardware and networks, that comprises the CDCS provided by the Corporation to the Clearing Members.

“CDCS” – stands for “Canadian Derivatives Clearing Service” and refers to the clearing and settlement system operated by CDCC, which is governed by the Rules.

“CDS” – CDS Clearing and Depository Services Inc., acting as Central Securities Depository in Canada or acting in any other capacity, or any successor thereof.

“Central Securities Depository” – any central securities depository acceptable to the Corporation, including CDS.

“Class Group” – all Options and Futures relating to the same Underlying Interest.

“Class of Futures” – all Futures covering the same Underlying Interest.

“Class of Options” – all Options of the same style within the same maturity category on the same Underlying Interest.

“Clearing Fund” – the fund established pursuant to Rule A-6 Clearing Fund Deposits.

“Clearing Member” – an applicant who has been admitted to membership in the Corporation.

“Client” – those customers of a Clearing Member who are not Market Makers or trading on behalf of a broker.

“Client Account” – the account or accounts required to be established for Transactions of the Clearing Members' Clients pursuant to Sections B-102, B-103, C-102, C-103, D-102 and D103.

“Clients Settlement Account” – the account established by Section A-403.

“Close of Business” – the time at which the Business Day ends, as specified in the CDCC Operations Manual. The time may, at the sole discretion of the Corporation, be modified to address shortened trading days on Exchanges.

“Closing Buy Transaction” – an Exchange Transaction the result of which is to reduce or eliminate a Short Position in the Series of Futures involved in such transaction.

“Closing Purchase Transaction” – an Exchange Transaction the result of which is to reduce or eliminate a Short Position in the Series of Options involved in such transaction.

“Closing Sell Transaction” – an Exchange Transaction the result of which is to reduce or eliminate a Long Position in the Series of Futures involved in such transaction.

“Closing Writing Transaction” – an Exchange Transaction the result of which is to reduce or eliminate a Long Position in the Series of Options involved in such transaction.

“Commodity” – any agricultural product, forest product, product of the sea, mineral, metal, hydrocarbon fuel, natural gas, electric power, currency or precious stone or other gem, and any goods, article, service, right or interest, or class thereof, whether in the original or processed state.

“Competent Authority” – has the meaning assigned to this term by Subsection A-409(3).

“Confirmation Transmission” – the electronic transmission made by a Clearing Member to the Corporation confirming that the Expiry Report detailed in Section B-307 is accepted.

“Consolidated Activity Report” – daily report listing either Options, Futures or OTCI transactions.

“Contract Specifications” – the specifications prescribed by the relevant Exchange with respect to a particular Option or Future.

“Corporation or CDCC” – Canadian Derivatives Clearing Corporation.

“CORRA Rate” – has the meaning assigned to this term by Section D-601.

“Corresponding CDCC Delivery Requirement” – has the meaning assigned to this term by Subsection A-804(4).

“Coupon Income” – has the meaning assigned to this term by Section D-601.

“CUSIP/ISIN” – acronyms respectively standing for Committee on Uniform Security Identification Procedures and International Securities Identification Number, herein used to refer to a security identifier assigned by CDS to any Acceptable Security.

“Daily Settlement Summary Report” – the report designated as such by the Corporation as described in the Operations Manual.

“Default Manual” – any manual designated as such by the Corporation, as amended from time to time.

“Default Value” – means the value determined by the Calculation Agent in accordance with Subsection A-409(6).

“Delivery Agent” – the party through which the Corporation will effect the transfer of the Underlying Interest between the buyer and seller.

“Delivery Default” – has the meaning assigned to this term by Subsection A-409(6).

“Delivery Month” – the calendar month in which a Future may be satisfied by making or taking delivery.

“Delivery Request” – has the meaning assigned to this term by Subsection A-409(6).

“Deposit” – a payment, deposit or transfer, whether of cash, securities, certificates, property, Underlying Interests, Underlying Interest Equivalents or other interests or rights.

“Depository Agreement” – an agreement entered into between the Corporation and an Approved Depository.

“Depository Receipt” – a Put Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit.

“Derivative Instrument” – means a financial instrument, the value of which derives from the value of an Underlying Interest. Without limiting the foregoing, this Underlying Interest may be a commodity or a financial instrument such as a stock, a bond, a currency, a stock or economic index or any other asset.

“Detailed Futures Consolidated Activity Report” – the report created by the Corporation on a daily basis reporting the aggregate position held by a Clearing Member, which also contains the Settlement of Gains and Losses for that Clearing Member for that day.

“Early Termination Date” – has the meaning assigned to this term by Subsection A-409(7).

“Electronic Communication” – means, in respect of the Corporation, any one or more of the following: the posting of a notice, report or other information on the Corporation’s website, the transmission of a notice, report or other information to a Clearing Member by means of electronic mail and the making available on the Corporation’s computer, in a form accessible to a Clearing Member, a notice, report or other information.

“Emergency” – Situation materially affecting the Corporation’s operations resulting from i) riot, war or hostilities between any nations, civil disturbance, acts of God, fire, accidents, strikes, earthquakes, labour disputes, lack of transportation facilities, inability to obtain materials, curtailment of or failure in obtaining sufficient power, gas or fuel, computer malfunction (whether mechanical or through faulty

operation), malfunction, unavailability or restriction of the payment, computer or bank wire or transfer system and any other cause of inability that is beyond the reasonable control of the Corporation; ii) any action taken by Canada, a foreign government, a province, state or local government or body, authority, agency or corporation, and any Exchange, Central Securities Depository, Acceptable Marketplace, Market Centre and Delivery Agent ; iii) the bankruptcy or insolvency of any Clearing Member or the imposition of any injunction or other restraint by any government agency, court or arbitrator upon a Clearing Member which may affect the ability of that member to perform its obligations; iv) any circumstance in which a Clearing Member, a Central Securities Depository or any other Entity has failed to perform contracts, is insolvent, or is in such financial or operational condition or is conducting business in such a manner that such Entity cannot be permitted to continue in business without jeopardizing the safety of assets, of any Clearing Member or the Corporation; or v) any other unusual, unforeseeable or adverse circumstance ~~materially affecting the Corporation's operations.~~

“End of Day DVP Settlement Time” – has the meaning assigned to this term by Section D-601.

“Entity” – shall include an individual, a corporation, a partnership, a trust and an unincorporated organization or association.

~~“Escrow Receipts” – a receipt, in a form acceptable to the Corporation, issued by an Approved Depository.~~

“European Option” (or European Style Option) – an Option which can be exercised only on its Expiration Date.

“Event of Default” – has the meaning assigned to this term by Subsection A-409(2).

“Exchange” – an exchange whose trades are guaranteed and/or cleared by the Corporation.

“Exchange Transaction” – a transaction through the facilities of an Exchange for:

- a) the purchase or writing of an Option or the reduction or elimination of a Long or Short Position in an Option; or
- b) the buying or selling of a Future or the reduction or elimination of a Long or Short Position in a Future.

“Exercise Notice” – a notice to the Corporation in the form prescribed by the Corporation, notifying the Corporation of the intent of the Clearing Member executing such notice to exercise an Option.

“Exercised Position” – the position of a Clearing Member in any account in respect of Transactions providing optionality to the holder and which may have been exercised by such Clearing Member in such account.

“Exercise Price” – the specified price per unit at which the Underlying Interest may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of an Option. (Sometimes referred to as the Strike Price).

“Exercise Settlement Amount” – the amount which must be paid by the Corporation to the Clearing Member exercising a put Option or who has been assigned a call Option, against delivery of the Underlying Interest.

“Exercise Settlement Date” – the date prescribed by the relevant Exchange within Contract Specifications of a particular Option.

“Expiration Date” – unless otherwise specified the Saturday immediately following the third Friday of the month and year in which the Option expires.

“Expiration Time” – the time on the Expiration Date, as fixed by the Corporation, at which the Option expires. Unless changed by the Corporation, the Expiration Time shall be ~~12:30~~10:00 a.m. on the Expiration Date.

“Expiry Response Screen” – a computer display also known as the “Expiry Workspace” made available to Clearing Members in connection with Rule B-3.

“Failed Delivery” – has the meaning set out (i) in Subsection A-804(1) with respect to the delivery of an Acceptable Security, (ii) in Section B-407 with respect to the delivery under an Option, (iii) in Section C-512 with respect to the delivery under a Future of an Underlying Interest other than an Acceptable Security, or (iv) in Section D-304 with respect to the delivery under an OTCI that is not a Fixed Income Transaction.

“Failed Payment Against Delivery” – has the meaning assigned to this term by Section A-806.

“Failure to Pay” – has the meaning ascribed to this term by Subsection A-409(4).

“Final Settlement Amount” – is the amount determined by the Calculation Agent in accordance with Subsection A-409(10).

“Firm” – a Clearing Member acting for its own account.

“Firm Account” – the account or accounts required to be established for Firm Transactions of the Clearing Members pursuant to Sections B-102, B-103, C-102, C-103, D-102 and D-103.

“Fixed Income Clearing Member” – has the meaning assigned to this term by Section D-601.

“Fixed Income Transaction” – has the meaning assigned to this term by Section D-601.

“Forward Curve” – the summary representation of the price of a commodity on a forward basis obtained by amalgamating all Reference Prices by tenor as defined in Section D-201.

“Forward Price” – the price extracted from the Forward Curve and used in the daily Mark-to-Market Valuation and margining processes as defined in Section D-202.

“Future” – a contract:

- a) in the case of a Future settled by delivery of the Underlying Interest, to make or take delivery of a specified quantity and quality, grade or size of an Underlying Interest during a designated future month at a price agreed upon when the contract was entered into on an Exchange; or
- b) in the case of a Future settled in cash, to pay to or receive from the Corporation the difference between the final settlement price and the trade price pursuant to standardized terms and

conditions set forth by the Exchange where the contract is concluded and which is cleared by the Corporation.

~~“Futures Margin Receipt” – a receipt, in a form acceptable to the Corporation, issued by an Approved Depository.~~

~~“Futures Underlying Interest Deposit” – the deposit by an Approved Depository acting on behalf of a Clearing Member or a client thereof of the Underlying Interest of a Future to the Corporation through a Central Securities Depository.~~

“Futures Sub-Accounts Consolidated Activity Report” – the report created by the Corporation on a daily basis reporting the aggregate position held by a Clearing Member in each of its sub-accounts, which also contains the Settlement of Gains and Losses for that day with respect to each sub-account.

“Good Deliverable Form” – Underlying Interests shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of the Underlying Interests in such form would constitute good delivery under the Contract Specifications.

– “Gross Delivery Requirement” – the quantity of Acceptable Securities required to be physically delivered through a Central Securities Depository by or to a Clearing Member, expressed on a gross basis, in accordance with Subsection D-606(10).

“Gross Payment Against Delivery Requirement” – the amount required to be paid against physical delivery through a Central Securities Depository by or to a Clearing Member, expressed on a gross basis, in accordance with Subsection D-606(10).

– “Guaranteeing Delivery Agent” – a Delivery Agent who bears the responsibility of guaranteeing the acquisition or delivery of the Underlying Interest in the event of a delivery failure.

“include”, “includes” and “including” – where used in these Rules, means “include”, “includes” and “including”, in each case, without limitation.

~~“Insolvency Event” – has the meaning assigned to this term by Subsection A-409(3).~~

~~“Insolvency Proceedings” – has the meaning assigned to this term by Subsection A-409(3).~~

“In-the-Money-Option” – a call Option with an Exercise Price that is less than the Market Price of the Underlying Interest or a put Option where the Exercise Price exceeds the Market Price of the Underlying Interest.

“Instrument” – shall mean a bill, note or cheque within the meaning of the Bills of Exchange Act (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, but does not include a security.

“Joint Regulatory Financial Questionnaire and Report” – the documents required under the applicable rules of the Investment Industry Regulatory Organization of Canada.

“Liquidating Settlement Account” – the account created following the default of a Clearing Member to recognize the value of all gains, losses, and expenses due to or from the Non-Conforming Member during the liquidation of positions and Margin Deposits, in accordance with Section A-402.

“Long Position” – a Clearing Member’s interest as:

- a) the holder of one or more Options of a Series of Options; or
- b) the buyer of one or more Futures of a Series of Futures; or
- c) the buyer of an Over-The-Counter Instrument.

“Margin” – any and all the deposits required or made pursuant to Rule A-7 Margin Requirements.

“Margin Deposit” – means, collectively,

- a) any and all Securities, ~~Money~~Cash, Instruments, cheques, Underlying Interest, Underlying Interest Equivalent, Long Positions and Short Positions;
- b) any and all of the deposits required or made pursuant to Rule A-6 Clearing Fund Deposits, Rule A-7 Margin Requirements, and Rule B-4 Delivery and Payment with Respect to Options Exercised, Rule C-5 Delivery of Underlying Interest of Futures and Rule D-3 Physical Delivery of Underlying Interest on Over-the-Counter Instruments, including Margin, Base Deposit, Additional Deposit, Variable Deposit, ~~Safe-Custody Receipts, Put~~ Escrow Receipts, Call Underlying Interest Deposits, and Futures ~~Margin Receipts, puts~~Underlying Interest Deposits, and any other form of deposit as from time to time are accepted by the Corporation; and
- c) any and all securities pledged or assigned to the Corporation through the facilities of a Central Securities Depository;

deposited by or on behalf of the Clearing Member with the Corporation.

“Mark-to-Market Valuation” – the value determined by the Corporation representing the liquidation value of a Transaction or account held by a Clearing Member as defined in Section D-202.

“Market Centre” – the local facility where the exchange of Underlying Interests occurs.

“Market Maker” – an individual who has been approved by the Exchange on which he trades to trade for his own account or for the account of the Exchange member or non-member by which he is employed or for which he acts as agent in Options or Futures, and may include a futures trader, an options trader, a trader member, a market maker and a market specialist.

“Market Maker Account” – the account or accounts required to be established for Exchange Transactions of the Clearing Member’s Market Makers pursuant to Sections B-102, B-103, C-102 and C-103.

“Market Price” – the aggregate price of the Unit of Trading of the Underlying Interest as determined by the Exchange or Exchanges involved.

“Matured Amounts” – any financial cash flows resulting from the expiration of an OTCI.

“Maturity Date” – the date on which final obligations related to a Transaction are executed.

~~“Money” – means the lawful currency of Canada or its equivalent in the lawful currency of any other country of the G-8.~~

~~“Morning Net Payment Against Delivery Requirement” – has the meaning assigned to this term by Section D-601.~~

~~“Morning Net DVP Settlement Timeframe” – has the meaning assigned to this term by Section D-601.~~

~~“Morning Netting Cycle Timeframe” – has the meaning assigned to this term by Section D-601.~~

“Multi-Purpose Account” – a Market Maker Account and/or a Netted Client Account.

“Net Daily Premium” – when applied to any account of a Clearing Member for any Settlement Time, means the net amount payable to or by the Corporation at such Settlement Time in respect of all Exchange Transactions of the Clearing Member in Options in such account as a purchasing Clearing Member and a writing Clearing Member.

“Net Daily Settlement” – the amount shown on ~~a report (“the~~ Daily Settlement Summary Report~~”).~~

“Net Delivery Requirement” – with respect to Acceptable Securities, the quantity thereof required to be physically delivered through a Central Securities Depository by or to a Clearing Member, expressed on a net basis, in accordance with Paragraph A-801(2)(~~ed~~); and with respect to any Underlying Interest of an OTCI that physically settles other than Acceptable Securities, the quantity of such Underlying Interest needed to be delivered through the relevant Delivery Agent by or to a Clearing Member, expressed on a net basis, in accordance with Section D-303.

“Net Payment Against Delivery Requirement” – the amount required to be paid against physical delivery through a Central Securities Depository by or to a Clearing Member, expressed on a net basis, in accordance with Paragraph A-801(2)(~~bc~~).

“Netted Client Account” – a type of Client Account that requires specific documentation be signed between the Clearing Member and the Corporation, in which the Transactions of a sole Client are held on a net basis.

“Netting Cut Off Time” – means, with respect to a Business Day and a Clearing Member, a time specified in the Operations Manual on such Business Day for purposes of determining, in respect of such Clearing Member, all net payment and delivery obligations owing by or to such Clearing Member in accordance with these Rules on such Business Day.

“Non-Conforming Member” – the meaning assigned to this term by Section A-1A04.

~~“Non-delivered Assets” – has the meaning assigned to this term by Subsection A-409(6).~~

~~“Non-Payment of the Cash Settlement Amount following a Delivery Default” – has the meaning assigned to this term by Subsection A-409(6).~~

“Notional Quantity” – the size of the OTCI transaction expressed either outright, or in accordance with the Unit of Trading and the number of contracts underlying the OTCI transaction.

“Open Interest” or “Open Position” – the position of a buyer or a seller of an Option, of a Future or of an OTCI.

“Opening Buy Transaction” – an Exchange Transaction the result of which is to create or increase a Long Position in the Series of Futures involved in such transaction.

“Opening Purchase Transaction” – an Exchange Transaction the result of which is to create or increase a Long Position in the Series of Options involved in such Exchange Transaction.

“Opening Sell Transaction” – an Exchange Transaction the result of which is to create or increase a Short Position in the Series of Futures involved in such transaction.

“Opening Writing Transaction” – an Exchange Transaction the result of which is to create or increase a Short Position in the Series of Options involved in such Exchange Transaction.

“Operations Manual” – the manual designated as such by the Corporation and any schedule to the Operations Manual including the Risk Manual, as amended from time to time.

“Option” – a contract which, unless otherwise specified, gives the buying Clearing Member the right to buy (a call) or sell (a put) a specified quantity of an Underlying Interest at a fixed price during a specified time period and which obligates the writing Clearing Member to sell (a call) or buy (a put) the Underlying Interest, pursuant to standardized terms and conditions set forth by the Exchange where the contract is concluded or to the terms determined by the Corporation as acceptable and which is cleared by the Corporation.

“Option Type” – put Option or call Option.

“Options Daily Transaction Report” – a report created by the Corporation providing the net premium payable/receivable.

“Out-of-the-Money Option” – a call Option with an Exercise Price that exceeds the Market Price of the Underlying Interest or a put Option where the Exercise Price is less than the Market Price of the Underlying Interest.

“Over-The-Counter Instrument” or “OTCI” – refers to any bilaterally negotiated transactions as well as any transactions concluded on any Acceptable Marketplaces.

~~“Postponed Payment Obligation” – with respect to the Corporation, the amount by which its Net Payment Default” – has the meaning assigned to this term by Subsection A-409(5).~~

~~“Payment Against Delivery Requirement or its Gross Request” – has the meaning assigned to this term by Subsection A-409(5).~~

~~“Pending Payment Against Delivery Requirements” – has the meaning assigned to this term by Section D-601.~~

~~“Pending Delivery Requirements” – has the meaning assigned to this term by Section D-601.~~

~~“Postponed Payment Obligation” – with respect to the Corporation, the amount by which its Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against delivery of Acceptable~~

Securities or its Gross Payment Against Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in favour of a Provider of Securities has been reduced as a result of the Provider of Securities' failure to deliver Acceptable Securities on the Business Day they were due by the End of Day DVP Settlement Time and the payment by the Corporation of such reduction has been postponed until full delivery by the Provider of Securities in accordance with Subsection A-804(1); and with respect to a Clearing Member who is a Receiver of Securities, the amount by which its Afternoon Net Payment Against Delivery DVP Settlement Requirement consisting of an obligation to pay against delivery of Acceptable Securities or its Gross Payment Against Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in favour of the Corporation has been reduced as a result of the Corporation's failure to deliver Acceptable Securities on the Business Day they were due by the End of Day DVP Settlement Time and the payment by such Clearing Member of such reduction has been postponed until full delivery by the Corporation in accordance with Subsection A-804(2).

"President" – the person appointed by the Board as chief executive officer and chief administration officer of the Corporation.

"Product Type" – the attribute of an OTCI which describes the rights and obligations of the counterparties involved in the transaction insofar as cash flows are concerned.

"Provider of Securities" – a Clearing Member who owes to the Corporation a Net Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(3) and Paragraph A-801(2)(ed) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(10), as the case may be.

"Put Escrow Receipt" – a receipt, in a form acceptable to the Corporation, issued by an Approved Depository certifying that it holds Cash in the amount of the Exercise Price of a put Option on behalf of a Clearing Member or a client thereof, in trust for the Corporation.

"Receiver of Securities" – a Clearing Member who is owed by the Corporation a Net Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(3) and Paragraph A-801(2)(ed) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(10), as the case may be.

"Reference Price" – the price determined by the Corporation in accordance with Section D-201.

"Registry" – any registry designated by the Corporation which, for the purpose of clearing Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units, has been established in order to ensure the accurate accounting of holding, transfer, acquisition, surrender, cancellation and replacement of the Carbon Dioxide Equivalent (CO₂e) Units.

"Risk Limits" – refers to the set of risk management limits imposed by the Corporation on Clearing Members' clearing activities as updated from time to time by the Corporation.

"Risk Manual" – the manual designated as such by the Corporation and any schedule to the Risk Manual including the Default Manual, as amended from time to time.

"Rolling Delivery Obligation" – with respect to a Clearing Member who is a Provider of Securities, the quantity of a given Acceptable Security that it has failed to deliver to the Corporation under ~~a~~an

~~Afternoon Net DeliveryDVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities under Paragraph Subsection A-801(2)(e4) or a Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time under Subsection D-606(10), as the case may be, on the Business Day it was due by the End of Day DVP Settlement Time, which is rolled into the calculation of the next Business Day's Net Delivery Requirement (and the Net Delivery Requirement of each subsequent Business Day) of such Clearing Member, in accordance with, and until such time as set out under, Subsection A-804(1); and with respect to the Corporation and a Clearing Member who is a Receiver of Securities, the quantity of a given Acceptable Security that the Corporation has failed to deliver to such Clearing Member under a~~ an Afternoon Net DeliveryDVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities under Paragraph A-Subsection A-801(2)(e4) or a Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time under Subsection D-606(10), as the case may be, on the Business Day it was due by the End of Day DVP Settlement Time (as a direct consequence of a Provider of Securities' failure to deliver all or a part of its Afternoon Net DeliveryDVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities or its Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in respect of such Acceptable Security on such Business Day) which is rolled into the calculation of the Corporation's next Business Day's Net Delivery Requirement (and the Net Delivery Requirement of each subsequent Business Day) in favour of such Clearing Members, in accordance with, and until such time as set out under, Subsection A-804(2).

"Rules" – shall mean the Rules of the Corporation and the Operations Manual, as any such rules, and manual may from time to time be amended, changed, supplemented or replaced in whole or in part.

"SRO Clearing Member" – a Clearing Member that is within the audit jurisdiction of the Investment Industry Regulatory Organization of Canada.

~~"Safe Custody Receipt" – a receipt, in a form acceptable to Same Day Transaction" – has the Corporation, issued meaning assigned to this term by an Approved Depository-Section D-601.~~

"Security" – shall mean a document that is

- (a) issued in bearer, order or registered form;
- (b) of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment;
- (c) one of a class or series or by its terms is divisible into a class or series of documents; and
- (d) evidence of a share, participation or other interest in property or in an enterprise or is evidence of an obligation of the issuer;

and includes such a document, not evidenced by a certificate, the issue and any transfer of which are registered or recorded in records maintained for that purpose by or on behalf of the issuer.

"Series of Futures" – all Futures of the same class covering the same quantity of an Underlying Interest and having the same delivery month.

“Series of Options” – all Options of the same class, the same type, covering the same quantity of an Underlying Interest and having the same Exercise Price and Expiration Date.

“Settlement Accounts” – has the meaning set out in Section A-217.

“Settlement Amount” – the amount calculated in accordance with these Rules payable to the delivering Clearing Member upon delivery of or cash settlement for the Underlying Interest in respect of a Transaction.

“Settlement of Gains and Losses” – the settlement with the Corporation of the gains and losses on Open Positions in Futures pursuant to Section C-302.

“Settlement Price” – the official daily closing price of a Future, as determined in accordance with Section C-301.

“Settlement Time” – means, with respect to a Transaction and a particular Business Day, the time on such Business Day as established by the Corporation in the Operations Manual and if no Business Day is specified, the time on the Business Day immediately following a trade day, a calculation date or a Coupon Payment Date, as applicable, as established by the Corporation in the Operations Manual, by which time Settlement of Gains and Losses, premium payments, all Margin requirements and all other payments in respect of such Business Day, trade day, calculation date or Coupon Payment Date must be submitted to the Corporation.

“Short Position” – a Clearing Member’s obligation as:

- a) the writer of one or more Options of a Series of Options; or
- b) the seller of one or more Futures in a Series of Futures; or
- c) the seller of an Over-The-Counter Instrument.

“Spread Position”

- a) the situation in which there is carried in a Clearing Member's Client Account both an Option in the Short Position and an Option of the same Class of Options in the Long Position; or
- b) the situation in which there is carried in a Clearing Member’s Client Account both a Long Position and a Short Position in Futures.

“Straddle Position” – an equal number of call and put Options covering the same Underlying Interest and having the same Exercise Price and Expiration Date.

“Style of Options” – the classification of an Option as either an American Option or a European Option. (Parts A and B of these Rules shall apply to both Styles of Options unless a specific Style of Option is designated).

“Submission Cut-Off Time” – has the meaning assigned to this term by Section D-601.

“Tender Notice” – a notice to the Corporation in the form prescribed by the Corporation, notifying the Corporation of the intent of the Clearing Member executing such notice to deliver the Underlying Interest of the Future.

“Termination Value” – means the amount determined by the Calculation Agent in accordance with Subsection A-409(10).

“Trade Confirmation” – the official document issued to a Clearing Member which details the attributes of the OTCI transaction and which signals the acceptance of the transaction for clearing by the Corporation.

“Trade Price” – the price agreed upon for the Future when the contract is entered into on an Exchange.

“Transactions” – All Futures, Options and Over-The-Counter Instruments which are determined by the Corporation as acceptable for clearing.

“Transaction Value” – has the meaning assigned to this term by Subsection A-409(10).

“Type of Options” – the classification of an Option as either a “put” or a “call”.

“Uncovered Residual Risk” – The amount of risk determined by the Corporation to be uncovered by the Margin model, resulting from an estimation of the loss the Corporation would face in an extreme but plausible market stress test scenario. This Uncovered Residual Risk is calculated and attributed to Clearing Members through their Clearing Fund contribution.

“Underlying Interest” – Asset which underlies and determines the value of a Derivative Instrument or of an OTCI. The Underlying Interest may be a commodity or a financial instrument such as a stock, a bond, a currency, a stock or economic index or any other asset.

“Underlying Interest Equivalent” – the items specified in Section A-708.

“Unit of Trading” – in respect of any Series of Futures and Series of Options and any Fixed Income Transaction means the number of units of the Underlying Interest which has been designated by the Corporation and the Exchange on which the Derivative Instrument is traded (as applicable) as the number to be the subject of a single Future or Option contract or of the Acceptable Security, as applicable.

“Variable Deposit” – the Clearing Fund deposit which may be required in addition to a Base Deposit pursuant to Section A-603.

RULE A-1A MEMBERSHIP IN THE CORPORATION

Section A-1A01 – Eligibility for Membership

- (a) In order to apply for membership, an applicant must be:
 - i) a member or approved participant in good standing with an exchange recognized in a Canadian province; or
 - ii) a bank or an authorized foreign bank to which the Bank Act (Canada), as amended from time to time, applies.
- (b) A Clearing Member that intends to submit Stock Options or Share Futures to the Corporation for clearing must be a full member participant in good standing with CDS.
- (c) A Clearing Member that intends to submit bond Options and/or bond Futures to the Corporation for clearing, must be a full member participant in good standing with CDS.
- (d) A Clearing Member that intends to submit physically settled OTCI transactions to the Corporation for clearing, must ensure that it and/or its Client is in good standing and remains as such at all times with the appropriate Market Centres and/or Delivery Agents. Furthermore, and where appropriate, the Clearing Member and/or its Client need to ensure access to a transportation system for the physical transport of the Underlying Interest to the appropriate Market Centres and/or Delivery Agents.
- (e) A Clearing Member that intends to submit Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with physical settlement to the Corporation for clearing must ensure that at all times it and/or its client is and remains in good standing with the Registry as this term is defined in Section A-102 of the Rules.
- (f) A Clearing Member that intends to submit Fixed Income Transactions to the Corporation for clearing must be a full member participant in good standing with CDS.

The Corporation may in its sole discretion waive the requirements set forth in clauses (b), (c), (d), (e) or (f) if the Clearing Member enters into an agency agreement with another Clearing Member, which agency agreement shall be in form and substance satisfactory to the Corporation, pursuant to which such other Clearing Member agrees to act as the first Clearing Member's agent for the purpose of fulfilling such Clearing Member's obligations to the Corporation under these Rules and the Application for Membership.

Section A-1A02 Standards of Membership

Every applicant to become a Clearing Member must meet such standards as may be adopted from time to time by the Board, including the following:

- (a) the applicant must meet the minimum capital requirements then in effect, in accordance with Section A-301;
- (b) the applicant must be engaged, or propose to engage, in the clearance of Options or Futures which are the subject of Exchange Transactions or in the clearance of Fixed Income Transactions or other OTCI transactions through the facilities of the Corporation;

- (c) the applicant shall demonstrate to the Corporation that it maintains adequate operations facilities and staff and has sufficient and competent personnel for the expeditious and orderly transactions of business with the Corporation and other Clearing Members, and to meet the requirements of these Rules; and
- (d) the applicant has deposited with the Corporation its initial deposit with the Clearing Fund in the amount and at the time required by the Rules and has signed and delivered to the Corporation an agreement in such form as the Board shall require.

Section A-1A03 Admission Procedure

Applications for membership shall be in such form and contain such information as the Board shall from time to time prescribe. Officers of the Corporation shall review applications for membership and shall recommend approval or disapproval thereof to the Board. The Corporation may but is not obligated to examine the books and records of any applicant, and take such evidence as it may deem necessary or employ such other means as it may deem desirable or appropriate to ascertain relevant facts bearing upon the applicant's qualifications. If the officers of the Corporation propose to recommend to the Board that an application for membership be disapproved, it shall first notify the applicant of its proposed recommendation and the grounds therefore, and shall afford the applicant an opportunity to be heard and to present evidence on its own behalf.

If the applicant fails to request a hearing or if, after a hearing, officers of the Corporation still propose to recommend disapproval, officers of the Corporation shall make their recommendation to the Board in writing, accompanied by a statement of the grounds therefore, and a copy thereof shall be furnished to the applicant on request.

The Board shall independently review any recommendation by officers of the Corporation, and if the applicant so requests, afford the applicant further opportunity to be heard and to present evidence. If the Board disapproves the application, written notice of its decision, accompanied by a statement of the grounds thereof, shall be provided to the applicant.

An applicant shall have the right to present such evidence as it may deem relevant to its application.

Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any applicant whose application has been disapproved to avail itself of any right of appeal which is provided to such applicant by applicable law.

Section A-1A04 Non-Conforming Member

(1) A Clearing Member who is or may become insolvent or unable to meet its obligations shall immediately notify the Corporation of its situation by telephone. Such notice shall be confirmed by the Clearing Member by notice in writing to the Corporation sent by facsimile transmission within the next business day.

(2) A Clearing Member who, in the judgement of the Corporation or pursuant to notification to the Corporation under Subsection (1), is or may be insolvent or unable to meet its obligations, becomes a Non-Conforming Member.

(3) Without limiting the application of this Rule, any one of the following events, whether actual or anticipated by the Corporation, constitutes a reasonable ground for the Corporation to determine in its judgement that a Clearing Member is a Non-Conforming Member:

- (a) breach of any term, eligibility, qualification, standard or condition of the Application for Membership or any other violation of these Rules;
- (b) breach of a rule of an Exchange, a Central Securities Depository, an applicable self-regulatory organization or regulatory agency, or of any other recognized, designated or foreign investment exchange or clearing agency;
- (c) refusal of an application for membership, breach of the terms of membership or contractual agreement, or suspension, termination or expulsion from membership of an Exchange, a Central Securities Depository, an applicable self-regulatory organization, Market Centres and/or Delivery Agents, the Registry, or any other recognized, designated or foreign investment exchange or clearing agency;
- (d) refusal of a licence, breach of the terms of its licence or withdrawal or suspension of such licence by a regulatory agency;
- (e) contemplated, threatened or actual action by a regulatory agency, a court of justice or administrative authority against or in respect of the Clearing Member under any provision or process of law or regulation;
- (f) default in a payment, deposit, delivery or acceptance of delivery required or payable under the Application for Membership or these Rules;
- (g) an order, arrangement, proposal, distress or execution is presented, made or approved in any jurisdiction to or by a court of competent jurisdiction relating to the bankruptcy, insolvency, winding up of the Clearing Member or the appointment of an administrator, receiver manager, trustee, or person with similar power in connection with the Clearing Member;
- (h) the determination on reasonable grounds by the Corporation that the Clearing Member is in such financial or operating condition that its continuation as a Clearing Member in good standing would jeopardize the interests of the Corporation or other Clearing Members;~~or~~
- (i) any of the conditions set out in paragraphs (a) to (h) applies to an Affiliate of a Clearing Member, having, in the reasonable judgement of the Corporation, a material impact on the financial condition of the Clearing Member; or
- (j) such other event as the Board or, if time does not permit action by the Board, the Corporation in its sole discretion reasonably determines to constitute reasonable grounds for such determination.

(4) If a Clearing Member is late in making a payment at Settlement Time, the Corporation shall impose fines and may deem that Clearing Member a Non-Conforming Member, in accordance with Section 7 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.

(5) Except where the Corporation has been notified under Subsection (1), the Corporation shall, in writing or by telephone, notify a Clearing Member that it has become a Non-Conforming Member. The Corporation may also, in its sole discretion, notify the Board, all Clearing Members, the Exchanges, the appropriate self-regulatory organization or regulatory agency that the Clearing Member is a member of,

the regulatory agency of the Corporation, and such other Entities as the Corporation may consider appropriate.

(6) The Corporation can revert the status of a Non-Conforming Clearing Member to a Clearing Member in good standing if the Clearing Member resolves, to the satisfaction of the Corporation, the issue(s) which led to its Non-Conforming status.

Section A-1A05 Suspension

(1) The Board may suspend a Non-Conforming Member, taking into consideration whether the suspension may protect the integrity of the market.

(2) Upon such suspension, the Corporation shall cease to act for the suspended Non-Conforming Member.

(3) The suspension may be total or may be for any function with respect to a particular security or class of securities, with respect to a particular transaction or class of transactions, or with respect to securities or transactions generally. Any suspension may be limited to a particular location or office of the Non-Conforming Member.

(4) The Board may lift the suspension of the Non-Conforming Member if the Corporation in its sole discretion determines that the Non-Conforming Member has corrected the situation which caused the Corporation to suspend the Non-Conforming Member in such a manner that it is unlikely to occur again.

(5) A suspended Non-Conforming Member shall remain liable to the Corporation for all obligations, costs and expenses, including all Margin requirements, including calls whether occurring before or after suspension, and other requirements, arising out of or in connection with such Non-Conforming Member's positions, and shall cooperate fully with the Corporation in respect of all matters arising out of or relating to the settling of or dealing with such positions.

Section A-1A06 Notice of Suspension to Clearing Members

Upon the suspension of a Non-Conforming Member, the Corporation shall notify all Clearing Members, the Exchanges, and the suspended Non-Conforming Member's applicable self-regulatory organization or regulatory agency, the regulatory agency of the Corporation and such other Entities as the Corporation may consider appropriate. Such notice shall state, in general terms, how pending Exchange Transactions, Open Positions, tendered Exercise Notices or Tender Notices, Exercised Positions, Assigned Positions, and other pending matters will be affected, what steps are to be taken in connection therewith, and the right of the suspended Non-Conforming Member to appeal the suspension before the Board.

Section A-1A07 Appeal of Suspension

A Non-Conforming Member suspended pursuant to Section A-1A05 shall receive from the Corporation a written statement of the grounds for its suspension, and shall have the right to appeal its suspension within ten business days from the effective date of the suspension.

Where a suspended Non-Conforming Member appeals its suspension, the Board shall give the appellant the opportunity to be heard as promptly as possible, and in no event more than 14 days after the filing of the notice of appeal.

The appellant shall be notified of the time, place and date of the hearing not less than three business days in advance of such date. At the hearing, the appellant shall be afforded an opportunity to be heard and to present evidence on its own behalf and may, if it so desires, be represented by counsel. As promptly as possible after the hearing the Board shall, by the vote of a majority of its members, affirm or reverse the suspension, and then instruct the Secretary of the Corporation to notify the appellant in writing of the decision. If the decision shall have been to affirm the suspension, the appellant shall be given a written statement of the grounds thereof.

The filing of an appeal of a suspension shall not impair the validity or stay the effect of the suspension appealed from. The reversal of a suspension shall not invalidate any acts of the Corporation taken prior to such reversal pursuant to such suspension and the rights of any person which may arise out of any such acts shall not be affected by the reversal of such suspension.

Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any Clearing Member the suspension of which has been affirmed by the Board to avail itself of any right of appeal which is provided to such Clearing Member by applicable law.

Section A-1A08 Termination of Membership

- (1) The Board shall, at its next meeting following the calendar month in which the Non-Conforming Member is suspended, or if an appeal is heard pursuant to Section A-1A07, following the calendar month in which the Board has affirmed the decision to suspend, lift the suspension or terminate the membership in the Corporation of a suspended Non-Conforming Member.
- (2) A Non-Conforming Member shall be given the opportunity to be heard by the Board before its membership is terminated.
- (3) Fifteen business days before the meeting of the Board at which the termination of a suspended Non-Conforming Member is to be considered, the Corporation shall give to the suspended Non-Conforming Member notice in writing of the meeting and a summary of the reasons for the proposed termination.
- (4) A committee of the Board shall not exercise the powers of the Board under this Rule, and the Board and the suspended Non-Conforming Member may mutually agree on a variation of such notification and meeting date.
- (5) The suspended Non-Conforming Member shall cease to be a Clearing Member as of the date and hour specified in the written decision of the Board.
- (6) The Corporation shall notify the regulatory bodies which have jurisdiction over the Corporation when a meeting of the Board is called to authorize the termination of the membership of a suspended Non-Conforming Member.
- (7) The Corporation shall promptly notify other Clearing Members, the Exchanges, the suspended Non-Conforming Member's applicable self-regulatory organization or regulatory agency, the regulatory agency of the Corporation and such other Entities as the Corporation may consider appropriate, that the Board has terminated the membership of a suspended Non-Conforming Member, indicating the effective date of the termination.

Section A-1A09 Voluntary Withdrawal

- (1) A Clearing Member which shall include a Non-Conforming Member (whether or not suspended) may at any time notify the Corporation in writing of its withdrawal as a Clearing Member and shall cease to be a Clearing Member thirty days following said notification.
- (2) The Corporation shall promptly notify the Board, the other Clearing Members, the Exchanges, the suspended Non-Conforming Member's applicable self-regulatory organization or regulatory agency, the regulatory agency of the Corporation and such other Entities as the Corporation may consider appropriate, that it has received notice of the Clearing Member's withdrawal from membership in the Corporation and the effective withdrawal date.

Section A-1A10 Transfer/Survival of Obligations

- (1) A Clearing Member may not allocate or transfer any rights or obligations under any Transaction confirmed in its name except as otherwise expressly provided in these Rules or with the prior consent of the Corporation, in its sole discretion.
- (2) The liabilities and obligations of a Clearing Member to the Corporation and to other Clearing Members, and of the Corporation and other Clearing Members to the Clearing Member, arising from its membership shall survive the suspension, termination or withdrawal of the Clearing Member's membership as though the former Clearing Member were still a Clearing Member.
- (3) Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any suspended or terminated Non-Conforming Member to avail itself of any right of appeal which is provided by applicable law.

Section A-1A11 Reinstatement of membership

- (1) A Clearing Member which has withdrawn as a Clearing Member or had its membership terminated may at any time be considered for reinstatement by the Board provided that the Clearing Member, if it is then eligible for membership, re-applies to become a Clearing Member, pays any entrance or reinstatement fee determined by the Board, meets the standards and qualifications for membership, demonstrates to the satisfaction of the Board that it has discharged all of its liabilities and indebtedness to the Corporation and the other Clearing Members, and the application for membership is accepted by the Board.
- (2) The Board may, in its sole discretion and on terms and conditions determined by the Board, approve or reject the new application for membership from a terminated or withdrawn Clearing Member. A committee of the Board shall not exercise the powers of the Board under this Rule.

RULE A-2 MISCELLANEOUS REQUIREMENTS

Section A-201 Offices

Every Clearing Member shall maintain an office at a location approved by the Corporation. A representative of the Clearing Member authorized in the name of the Clearing Member to sign all instruments and take all action necessary for conducting business with the Corporation shall be present at such office on every Business Day between such hours as may be specified from time to time by the Corporation. Such representative shall be subject to the approval of the Corporation and shall be authorized to act on behalf of the Clearing Member by a written power of attorney in the case of a partnership or by a resolution of the board of directors in the case of a corporation. Such power of attorney or resolution, as the case may be, shall be in a form approved by the Corporation.

Section A-202 Evidence of Authority

- (1) Every Clearing Member shall file with the Corporation a certified list of the signatures of the representatives (“Authorized Representatives”) of such Clearing Member (including partners and officers) who are authorized to sign certificates, cheques, agreements, receipts, orders and other papers necessary for conducting business with the Corporation, together with an executed copy of the powers of attorney, resolutions or other instruments giving such authority.
- (2) Any Clearing Member who has given a person a power of attorney or other authorization to transact business with the Corporation shall, immediately upon the withdrawal, retirement, resignation or discharge of such person or the revocation of his power to act, give written notice of such fact to the Corporation.
- (3)
 - (a) where a document is presented by a Clearing Member to the Corporation which bears an authorization stamp of a Clearing Member in the form approved by the Corporation or,
 - (b) where data is transferred electronically from a Clearing Member to the Corporation,

the Corporation shall be entitled to assume the authenticity of the authorization stamp and the authority of the person presenting the document or initiating the electronic transfer to do so on behalf of the Clearing Member.
- (4) The Corporation shall be entitled to rely and act upon any instruction given hereunder. The Corporation shall be under no obligation to ensure the genuineness or validity of any signature purporting to be that of an authorized signatory of the Clearing Member, of any stamp purporting to be an authorized stamp, or of the authority of any person initiating any electronic data transfer. The Corporation shall have no responsibility in the event that any such signature, stamp or data is forged, unauthorized or otherwise invalid or ineffective.

Section A-203 Receipt of Documents

- (1) A box or other facility at an office of the Corporation (or of a designated agent of the Corporation) will be assigned to each Clearing Member for the distribution of forms, papers, documents, notices, statements and such other items as the Corporation deems appropriate. An item deposited in Clearing Member's box shall be deemed received by such Clearing Member when deposited.

- (2) Every Clearing Member shall be responsible for sending an Authorized Representative at an office of the Corporation for receipt of cheques, drafts and all items placed in the box of the Clearing Member at such intervals as may be necessary for the Clearing Member to perform all obligations and duties required by these Rules.

Section A-204 Documents and Other Items Submitted to the Corporation

All reports, documents, papers, statements, notices, cheques, drafts, certificates of deposit and other items required by the Rules to be submitted to the Corporation shall, except as may otherwise be specifically prescribed by the Rules, be delivered to the designated office of the Corporation or its agent at such times, on such forms and in such manner as the Corporation shall prescribe. Each item delivered to the Corporation shall clearly indicate the identity of the Clearing Member making such submission.

INTERPRETATION AND POLICIES

01. Every Clearing Member shall be required to use an authorization stamp, in a form approved by the Corporation, in lieu of manual signatures, on such reports, documents, papers, statements, notices, and other items as the Corporation shall from time to time prescribe.
02. The Corporation shall provide each Clearing Member with two authorization stamps at no charge. Any additional authorization stamps requested by a Clearing Member will be charged by the Corporation to such Clearing Member based upon the Corporation's costs. In lieu of an authorization stamp provided by the Corporation, a Clearing Member may use a member-selected authorization stamp, provided that the stamp meets such requirements as the Corporation may from time to time impose with respect to format and content and the Clearing Member files with the Corporation such documentation as the Corporation may require authenticating the member-selected authorization stamp.
03. Each Clearing Member shall be bound by all such reports, documents, papers, statements, notices and other items as the Corporation shall prescribe pursuant to Paragraph 01. above, bearing the Clearing Member's authorization stamp.

Section A-205 Records

- (1) Every Clearing Member shall keep up to date records showing, with respect to each Transaction:
 - (a) the names of the parties to the Transaction;
 - (b) the trade date;
 - (c) the name of the client;
 - (d) if in respect of a Future, the Class and Series of Futures, the Underlying Interest, the number of contracts, the contract price, the delivery month and year, whether the transaction was a buy or sell transaction and whether it was an opening or closing transaction;
 - (e) if in respect of an Option, the Class and Series of Options, the Underlying Interest, the number of contracts, the premium, the Exercise Price, the expiry month, whether the transaction was a purchasing or a writing transaction and whether it was an opening or a closing transaction;

- (f) if in respect of any OTCI the trade details as specified in the Trade Confirmation, and
 - (g) such other information as may from time to time be required by law, regulation, an Exchange or the Corporation.
- (2) Every Clearing Member shall retain and keep readily accessible to the Corporation in a form acceptable to the Corporation, all records required by these Rules, including without limitation, the records referred to in Subsection A-205(1), for at least seven (7) years from the end of the calendar year to which such records relate in such form as the Corporation may authorize. The Corporation shall be entitled to inspect or take temporary possession of any such records at any time upon demand. All reports shall be available to the Corporation no later than 8:00 a.m. on the Business Day immediately following the report date. A Clearing Member must file any information requested by the Corporation within the time period specified in such demand.

Section A-206 Notices and Reports by the Corporation

- (1) (a) Unless otherwise specifically provided for in any other Rule, the Corporation may give notice to a Clearing Member in such manner as the Corporation deems appropriate in the circumstances of the notice being given, including by telephone, by hand delivery, by fax and by Electronic Communication.
 - (b) Each Clearing Member shall by notice in writing signed by a Clearing Member's Authorized Representative provide to the Corporation the names of at least two individuals and their positions for the purposes of telephone communications. The Corporation shall attempt to contact such individuals (or any other persons at the Clearing Member holding such positions) (the "CDCC Contacts") in connection with all telephone communications during business hours. If the CDCC Contacts are not available, the Corporation shall be entitled, during business hours, to provide telephone communications to any person answering the telephones at the Clearing Member. All telephone communications by the Corporation will be logged, electronically or manually, by the Corporation in one or more files ("Notice Files") kept for that purpose, recording the time and subject matter of the call, the individual at the Corporation who made the call and the individual at the Clearing Member who received the call. The Notice File, absent manifest error, shall be deemed to be correct.
 - (c) Telephone communications given in accordance with Paragraph A-206(1)(b) or in accordance with Subsection A-206(6) shall constitute full and proper notice notwithstanding the absence of any written or electronic confirmation of same.
 - (d) For the purposes of this Section A-206, "business hours" shall mean from 8:00 a.m. to the Close of Business on any Business Day.
- (2) The Corporation may from time to time prescribe the form of reports to be given by the Corporation to Clearing Members. These reports may be sent by hand delivery, fax or Electronic Communication.
- (3) Each Clearing Member shall maintain a computer system at the Clearing Member's designated office capable of obtaining, displaying and receiving Electronic Communications from the Corporation. Each Clearing Member shall have an obligation to review promptly each report, notice, instruction, data or other information made available by the Corporation to such Clearing Member through Electronic Communication. Each Clearing Member shall be responsible for advising the Corporation

by telephone (confirmed in writing), fax or hand delivered notice on the Business Day on which a report is deemed to have been received or the Expiration Date of any item requiring change for any reason and the failure to report any such required change by such time shall constitute a waiver of the Clearing Member's right to have such item changed.

- (4) Upon the Corporation delivering or making available a notice or report in accordance with this Section A-206, the Corporation's obligation to furnish, issue or deliver such notice or report shall have been fulfilled.
- (5) Subject to Subsection A-206(6):
 - (a) a notice given by telephone shall be deemed to have been received by a Clearing Member as of and to be effective from the time of the telephone call to an individual in accordance with Paragraph A-206(1)(b) or Subsection A-206(6), as the case may be, as recorded in the relevant Notice File, unless the notice or another Rule specifically provides otherwise;
 - (b) a notice given or report sent by fax shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received as of and, unless otherwise stated, to be effective from and after the time of the fax on the day it is sent, unless the notice or another Rule specifically provides otherwise;
 - (c) a notice or report given by Electronic Communication shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received on and to be effective as of the day it is sent, unless the notice or another Rule specifically provides otherwise; and
 - (d) a notice given by mail shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received and to be effective on the fifth day after mailing and a notice given or report sent by hand delivery shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received and to be effective on the earlier of when it actually is received by the Clearing Member and the next Business Day immediately following the date it was sent.
- (6) Where a notice is given or a report is sent by any means out of business hours or on a day that is not a Business Day, the notice or the report, as the case may be, shall be deemed to have been received on the earlier of
 - (a) the time the Corporation confirms it has actually been communicated to a responsible individual with the Clearing Member; and
 - (b) the beginning of the next following Business Day.

For greater certainty, under Paragraph A-206(6)(b), where a notice is given or report is received prior to 9:00 a.m. on a Business Day, it shall be deemed to have been received not later than 9:15 a.m. on that Business Day. The Corporation shall maintain a list of emergency contact telephone and/or fax numbers of not less than three responsible individuals employed by each Clearing Member with whom the Corporation can communicate out of ordinary business hours if the Corporation determines such communication is necessary or advisable. It shall be the responsibility of each Clearing Member to ensure that the individuals so selected can be readily contacted outside of ordinary business hours, and that the contact numbers for them are kept current.

Section A-207 Payment of Fees and Charges

- (1) The Corporation may levy such fees and charges related to such services provided to Clearing Members as it deems appropriate. All or any part of the proceeds from such levy may be applied to such purposes as the Corporation shall determine from time to time.
- (2) Fees and charges owing by a Clearing Member to the Corporation shall be due and payable within 30 days following the date of the invoice.

Section A-208 Force majeure or Emergency

On the happening of a *force majeure* or an Emergency, the Corporation is entitled to take such action as it deems necessary and appropriate or require any Clearing Member to take such action as the Corporation may direct in respect of the same. In taking such action, the Corporation reserves the right, with regards to the settlement of a Transaction, to make a cash settlement in lieu of the delivery of the Underlying Interest.

Section A-209 Time

All times herein are Eastern Time prevailing in Montreal and Toronto at the time of the event.

Section A-210 Distribution of Information, Confidentiality and Use of CDCC Materials

- (1) Clearing Member Information
 - (a) The Corporation may provide, on a confidential basis, any information regarding a Clearing Member to the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable self-regulatory organization or regulatory agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Acceptable Marketplace, the Corporation's auditors and any regulatory authority having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate, when, in the opinion of the Corporation, such information is relevant to the preservation of the integrity of the securities industry and derivative markets or the provision of such information is in the public interest.
 - (b) The Corporation may also receive, on a confidential basis, any information regarding a Clearing Member from the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable self-regulatory organization or regulatory agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Acceptable Marketplace, the Corporation's auditors and any regulatory agency having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate. Where in the opinion of the Corporation such information is relevant, the Corporation shall be entitled to rely upon such information for the purposes, among others, of Rule A-3, Capital Requirements.
 - (c) Each Clearing Member, by virtue of its membership in the Corporation, is deemed to have authorized the Corporation to provide any information regarding the Clearing Member to the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable

self-regulatory organization or regulatory agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Acceptable Marketplace, the Corporation's auditors and any regulatory agency having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate.

- (d) Each Clearing Member, by virtue of its membership in the Corporation, is deemed to have authorized the Corporation to receive any information regarding the Clearing Member from the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable self-regulatory organization or regulatory agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Acceptable Marketplace, the Corporation's auditors and any regulatory agency having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate.
- (e) Each Clearing Member, by virtue of its membership in the Corporation, is deemed to have authorized the Corporation to release any information regarding the Clearing Member that is in a statistical summary or other format, provided the information does not specifically identify a particular Clearing Member.
- (f) The Clearing Member, by virtue of its membership in the Corporation, is deemed to have released the Corporation and each of its directors, officers and employees from any and all liability whatsoever which may arise by virtue of information being furnished to the Corporation or any organization considered appropriate, for such purposes, by the Corporation.

(2) Corporation Confidential Information

- (a) A Clearing Member will not disclose any Confidential Information to any person and will not copy, reproduce or store in a retrieval system or data base any Confidential Information except for such copies and storage as may be required by the Clearing Member for its own internal use when employing ~~the Corporation's Clearing System~~CDCS.
- (b) The Confidential Information will remain the exclusive property of the Corporation or the relevant third party.
- (c) A Clearing Member will take reasonable security measures and use reasonable care to protect the secrecy of, and to avoid the disclosure to or use by third parties of, Confidential Information.
- (d) Upon ceasing to be a Clearing Member or at any time upon the request of the Corporation, the Clearing Member will delete any Confidential Information from all retrieval systems and data bases or destroy same as directed by the Corporation and provide the Corporation with an officer's certificate attesting to such deletion or destruction.

For the purposes of this Subsection A-210(2), "**Confidential Information**" means all information relating to the Corporation, including all CDCC Material and any other information relating to ~~its Clearing System~~CDCS such as trading data or procedures furnished by or on behalf of the Corporation to a Clearing Member, regardless of the manner in which it is furnished (whether oral or in writing or in any other form or media), but does not include:

- (a) the Rules;
 - (b) information that is already published or otherwise is or becomes readily available to the public, other than by a breach of the Rules;
 - (c) information that is rightfully received by the Clearing Member from a third party not in breach of any obligation of confidentiality to the Corporation;
 - (d) information that is proven to be known by the Clearing Member on a non-confidential basis prior to disclosure by the Corporation; or
 - (e) information that is proven to be developed by the Clearing Member independent of any disclosure by the Corporation.
- (3) Use of CDCC Materials
- (a) The Corporation grants each Clearing Member a limited, non-exclusive, revocable and non-transferable license to use CDCC Materials only for uses directly related to the Clearing Member's use of ~~the Corporation's Clearing System~~ CDCCS. The Clearing Member will not use CDCC Materials or any information obtained or derived from CDCC Materials except in accordance with this license. The Clearing Member acknowledges and agrees that all ownership right in the CDCC Materials belongs to the Corporation or its suppliers.
 - (b) If a Clearing Member (with CDCC's permission) discloses CDCC Materials or any information obtained or derived from CDCC Materials to a client (including to any of its Affiliates) receiving services from a Clearing Member, the Corporation may require the Clearing Member to obtain an undertaking from such client to comply with Section A-210 in its use of CDCC Materials or any information obtained or derived from CDCC Materials.
 - (c) Except as provided in Paragraphs (a) and (b) of this Subsection A-210(3), a Clearing Member will not: (i) copy or modify the CDCC Materials; (ii) sell, sublicense or otherwise transfer the CDCC Materials to any third party; (iii) reverse engineer or create derivative works based on the CDCC Materials; or (iv) use, disclose or communicate CDCC Materials or any information obtained or derived from CDCC Materials to or for the benefit of any third party or any Affiliate of the Clearing Member by any means whatsoever whether as a back-office service provider, outsourcer, or wholesaler to any third party or Affiliate of the Clearing Member or for the benefit of any joint venture or partnership to which the Clearing Member is a party.
- ~~(4) For the purposes of this Section, the term "Clearing System" shall have the meaning ascribed to it in Subsection A-215(3).~~

Section A-211 Notice of Proposed Amendments to Rules

As required by law, the Corporation shall provide all Clearing Members with the text of any proposed rule change and a statement of its purpose and effect on Clearing Members. This Section A-211 shall not require the Corporation to provide Clearing Members with any proposed rule change in the cases where notice is not required by law including (i) the Corporation is of the opinion that an emergency requires the rule change without public consultation, (ii) the change is in respect of a new derivative, (iii) where the impact of a change on a Clearing Member is minor, (iv) the change pertains to a routine operational process or an administrative practice, (v) the change is intended for purposes of

harmonization or compliance with an existing rule or with legislation, or (vi) the change corrects an error of form, a clerical error, a mistake in calculation or makes stylistic changes. The non-receipt by any Clearing Member of proposed rule changes under this Section A-211 shall not affect the validity, force or effect of any action taken by the Corporation pursuant thereto.

Section A-212 Deposits and Withdrawals

(1) General

- (a) From time to time, each Clearing Member will be required to make payments, deposits or transfers of ~~eash~~Cash, Securities, certificates, property, Underlying Interests, Underlying Interest Equivalents or other interests or rights to the Corporation under these Rules, to assure the performance of the obligations of such Clearing Member or to fulfil such Clearing Member's obligations to the Corporation hereunder.
- (b) Each payment, deposit or transfer, whether of ~~eash~~Cash, Securities, certificates, property, Underlying Interests, Underlying Interest Equivalents or other interests or rights (a "Deposit") shall be deemed to have been made at the time that (i) the Deposit has been delivered to and accepted by the Corporation, (ii) where the Corporation has the authority or under these Rules is entitled to transfer or apply any monies, securities or position from any Clearing Member's account, whether such account is held at the Corporation or elsewhere, at the time such transfer or application is effected by the Corporation, or (iii) a ~~Safe Custody, Put Escrow or Futures Margin Receipt~~, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit has been accepted by the Corporation.
- (c) At the time of any Deposit hereunder, the Clearing Member shall indicate on the appropriate form filed with the Corporation the details and purpose of the Deposit.

(2) ~~Deposits of Safe Custody Receipts, Put Escrow Receipts, Call Underlying Interest Deposits~~ or Futures ~~Margin Receipts~~Underlying Interest Deposits will be accepted only if the Approved Depository has agreed in writing in the form prescribed by the Corporation, that:

- (a) the Deposit has been received by such Approved Depository and is in Good Deliverable Form;
- (b) the Deposit shall be immediately delivered to the order of the Corporation in accordance with the terms and conditions of ~~the depository agreement~~a Depository Agreement made between such Approved Depository and the Corporation (i) with respect to a Put Escrow Receipt, on demand at any time during the period the Corporation holds the ~~Safe Custody Receipt, Put Escrow Receipt~~, and (ii) with respect to a Call Underlying Interest Deposit or Futures Margin ReceiptUnderlying Interest Deposit, by being pledged to the Corporation through a Central Securities Depository during the life of the relevant call Option or Future;
- (c) the Deposit shall remain (i) with respect to a Put Escrow Receipt, on deposit with the Approved Depository in trust for the Corporation until ~~either the Safe Custody Receipt, Put Escrow Receipt or Futures Margin Receipt therefor~~ is returned to the Approved Depository, or the Deposit is delivered to the order of the Corporation on demand in accordance with Paragraph (b) hereof; and

- ~~(d) the Corporation shall have the right to hold the Safe Custody Receipt, Escrow Receipt or the relevant Put Escrow Receipt and the terms of the Depository Agreement; and (ii) with respect to a Call Underlying Interest Deposit or Futures Underlying Interest Deposit, on deposit with the Corporation through a Central Securities Depository until the Call Underlying Interest Deposit or Futures Margin Underlying Interest Deposit is returned to the Approved Depository, or the Deposit is seized by the Corporation in accordance with the terms of the Depository Agreement; and~~
- ~~(d) the Corporation shall have the right to hold the Put Escrow Receipt, Call Underlying Interest Deposit or Futures Underlying Interest Deposit until the Corporation is satisfied, following the filing of a withdrawal request pursuant to this Section, that all ~~margin~~ Margin required has been deposited with the Corporation.~~
- (3) The Clearing Member shall deliver the Deposit ~~or the original of the Safe Custody Receipt, Escrow Receipt or Futures Margin Receipt~~ to the Corporation (together with such covering forms as the Corporation may require), between the hours specified by the Corporation. Clearing Members shall ensure that at all times their ~~Margin~~ Deposits are not held by them but by the Corporation or an Approved Depository.
- (4) A Deposit ~~or a Safe Custody Receipt, Escrow Receipt or Futures Margin Receipt~~ may be withdrawn by a Clearing Member between the hours specified by the Corporation; provided, however, that the Corporation may continue to hold a Deposit, ~~or a Safe Custody Receipt, Escrow Receipt or Futures Margin Receipt:~~
- (a) following the Expiration Date of the relevant Options until all obligations of the Clearing Member arising from the assignment of Exercise Notices have been performed; or
- (b) following the acceptance of a Tender Notice until all obligations of the Clearing Member arising from the delivery of or payment for the Underlying Interest have been performed; ~~or~~
- ~~(c) in relation to a Deposit in a Clearing Fund, until all obligations of the Clearing Members have been performed.~~
- A Clearing Member seeking to withdraw a Deposit ~~or a Safe Custody Receipt, Escrow Receipt or Futures Margin Receipt~~ shall submit a duly completed withdrawal request in the form prescribed by the Corporation and must comply with the applicable notice requirements as set out in the Operations Manual.
- (5) ~~Safe Custody Put Escrow Receipts, Call Underlying Interest Deposits and Escrow Receipts which relate to the Underlying Interests and Futures Underlying Interest Deposits shall be deemed Underlying Interest Equivalents detailed in accordance with Section A-708 for equity, bond, cash settlement and short term money market vehicle Options shall be acceptable. In addition Safe Custody Receipts which relate to Deposits in a Clearing Fund under Section A-608 and to Margin Deposits under Section A-709 shall also be acceptable...~~
- (6) **Deposits**

- (a) At the time of the delivery of a Deposit ~~other than a Safe Custody Receipt or Escrow Receipt~~, the Clearing Member shall indicate on the appropriate form filed with the Corporation whether the Deposit is a 'bulk deposit' or a 'specific deposit'.
- (b) A bulk deposit may be made in respect of any number of unspecified Option Short Positions or unspecified Futures ~~positions~~ Short Positions held in the account of the Clearing Member for which the Deposit is made.
- (c) A specific deposit may be made only of Underlying Interest or Underlying Interest Equivalent held for the account of a named depositor in respect of a specified ~~put or~~ call Option Short Position or specified Futures ~~position~~ Short Position held by the Clearing Member for such depositor. The Clearing Member shall maintain a record of each specific deposit, identifying the depositor, the account in which the Underlying Interest or Underlying Interest Equivalent is held and the specified positions for which the specific deposit has been made.
- (d) No Underlying Interest or Underlying Interest Equivalent held for the account of a Client may be deposited hereunder in respect of a position in any account other than a Client Account. No Underlying Interest or Underlying Interest Equivalent held for any Market Maker may be deposited hereunder in respect of a position in any account other than such Market Maker Account.
- (e) The Deposit hereunder by a Clearing Member of any Underlying Interest or Underlying Interest Equivalent held for the account of any Client may be made only to the extent permitted by applicable law, regulations and policies of the Corporation and shall constitute the certification of the Clearing Member to the Corporation that such Deposit does not contravene any provision of applicable law, regulations or policies of the Corporation.
- (f) The Clearing Member shall not deposit hereunder more Underlying Interest or Underlying Interest Equivalent held for a Client Account than is fair and reasonable in light of the indebtedness of the Client to such Clearing Member and the Client's positions with the Clearing Member.
- (g) The Corporation shall not use any Underlying Interest or Underlying Interest Equivalent in bulk deposit in a Client Account or a Market Maker Account, or the proceeds therefrom, to satisfy any obligation of the Clearing Member to the Corporation other than an obligation arising out of such Client Account or Market Maker Account.

~~(7) — Safe Custody Receipts~~

~~Safe Custody Receipts shall be used only for:~~

- ~~(a) — deposits made in respect of any number of unspecified Option Short Positions, unspecified Futures positions held in the account of the Clearing Member for which the Deposit is made, or~~
- ~~(b) — deposits made in respect of a Clearing Fund.~~

~~(8) — Escrow Receipts~~

- ~~(a) A Clearing Member may file an Escrow Receipt issued by an Approved Depository (in the form approved by the Corporation) which certifies that the Underlying Interest or Underlying Interest Equivalent described therein is held by such Approved Depository to the order of the Corporation on the instructions of a named depositor.~~
- ~~(b) Pending the issuance of an Escrow Receipt by an Approved Depository a Clearing Member may deposit with the Corporation a letter of guaranty issued by such Approved Depository. Such letter of guaranty shall be in the form prescribed by the Corporation.~~
- ~~(c) In the event any Short Position in a call Option for which an Escrow Receipt has been deposited is closed out by a Closing Purchase Transaction, the Clearing Member making such Deposit shall promptly request the withdrawal of the Escrow Receipt evidencing such Deposit.~~
- ~~(d) If an Exercise Notice is assigned to a Clearing Member in respect of a call Option included in a Short Position of a Client Account maintained by such Clearing Member, no Escrow Receipt may thereafter be deposited in respect of such Option. If an Escrow Receipt shall previously have been deposited by such Clearing Member in respect of such Option, the Clearing Member shall be obligated to deposit with the Corporation no later than Settlement Time on the second Business Day immediately following the day on which the Exercise Notice was assigned, margin in respect of such Option. When such margin is deposited, the Corporation will release and return the Escrow Receipt previously filed in respect of such Option.~~

~~(9) **Futures Margin Receipts**~~

~~— The Clearing Member may file a Futures Margin Receipt issued by an Approved Depository (in the form approved by the Corporation) which certifies that the security described therein is held by such Approved Depository to the order of the Corporation on the instructions of a named depositor.~~

~~(7) **Depository Receipts**~~

- ~~(a) A Clearing Member may file a Depository Receipt issued by an Approved Depository (in the form approved by the Corporation) which certifies that the Underlying Interest or Underlying Interest Equivalent described therein is held by such Approved Depository in trust for the Corporation (in the case of a Put Escrow Receipt) or is pledged to the Corporation through a Central Securities Depository (in the case of a Call Underlying Interest Deposit or Futures Underlying Interest Deposit) on the instructions of a named depositor.~~
- ~~(b) In the event any Short Position for which a Depository Receipt has been deposited is closed out by a Closing Purchase Transaction or by a Closing Buy Transaction, as the case may be, the Clearing Member making such Deposit may promptly request the withdrawal of the Depository Receipt evidencing such Deposit.~~
- ~~(c) If a Clearing Member requests the withdrawal of a Depository Receipt issued in respect of a put or call Option or a Future while it is still outstanding, it may do so subject to satisfying the Margin requirement with respect thereof. When such Margin is deposited, the Corporation will release and return the Depository Receipt previously filed in respect of such put or call Option or Future, as the case may be.~~

(8) Approved Depositories

Clearing Members acknowledge and agree that the Corporation will accept that Deposits be made through an Approved Depository in accordance with these Rules on the basis that the Approved Depository meets the following criteria:

- (a) It is (i) a trust company to which the *Trust and Loan Companies Act (Canada)* applies or subject to the *Loan and Trust Corporations Act (Ontario)* or *An Act Respecting Trust Companies and Savings Companies (Quebec)* or equivalent legislation of other provinces of Canada, or (ii) such other institution as the Board may, in its sole discretion, approve from time to time;
- (b) It has a minimum capital of \$25,000,000, for which current audited financial statements are available;
- (c) It enters into a Depository Agreement with the Corporation in acceptable form;
- (d) It enters into an agreement with the depositor (either a Clearing Member or a client of a Clearing Member) wishing to make Deposits in the form of Cash to be held in trust for the Corporation and certified by Put Escrow Receipts, and/or Call Underlying Interest Deposits and/or Futures Underlying Interest Deposits to be pledged to the Corporation through a Central Securities Depository pursuant to Section A-708, which agreement shall clearly set forth the conditions under which the Approved Depository will handle such Deposits, issue Depository Receipts and honour the Corporation's demands for release in respect of Put Escrow Receipts, consistent with the terms of the Depository Agreement;
- (e) It holds each Deposit that is the object of a Put Escrow Receipt as custodian for the account of the depositor in trust for the Corporation with the express authority from the depositor to act in such capacity in respect of a specific put Option;
- (f) It holds each Deposit that is the object of a Put Escrow Receipt free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in its own or in any third party's favour;
- (g) It is duly authorized by the depositor to release a Deposit that is the object of a Put Escrow Receipt in favour of the Corporation in accordance with the terms of the Depository Agreement;
- (h) It pledges on behalf of the depositor each Deposit that is the object of a Call Underlying Interest Deposit to the Corporation through a Central Securities Depository with the express authority from the depositor to effect such pledge of the relevant Underlying Interest in respect of a specific a call Option;
- (i) It pledges on behalf of the depositor each Deposit that is the object of a Call Underlying Interest Deposit free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in its own or any third party's favour;

- (j) It pledges on behalf of the depositor each Deposit that is the object of a Futures Underlying Interest Deposit to the Corporation through a Central Securities Depository with the express authority from the depositor to effect such pledge of the relevant Underlying Interest in respect of a specific Future; and
- (k) It pledges on behalf of the depositor each Deposit that is the object of a Futures Underlying Interest Deposit free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in its own or any third party's favour.

Section A-213 Accounts with Financial Institutions

Every Clearing Member shall designate an account or accounts established and maintained by it in a Canadian financial institution acceptable to the Corporation for each currency of the Transactions that it enters into.

Section A-214 Electronic Interfaces

As many functions previously conducted by the movement of paper between the Corporation and Clearing Members are now, or will in the future be, executed by electronic transfers of data to and from the Corporation, the words “access”, “deliver”, “furnish”, “instruct”, “issue”, “make available”, “notify”, “receive”, “submit” and “tender” shall include, where appropriate, the movement of information by electronic means between the Corporation and a Clearing Member.

Section A-215 Liability

- (1) Notwithstanding anything to the contrary in the Rules, all obligations of the Corporation described in the Rules are solely to its Clearing Member. For greater certainty, the Rules are not to be interpreted or construed to imply that the Corporation has any obligation to any Entity other than its Clearing Members. Without limiting the generality of the foregoing, the Corporation is also not liable for obligations of a non-Clearing Member, or of a Clearing Member to a non-Clearing Member, of a Clearing Member to another Clearing Member who is acting for it as an agent, or obligations to a Client by a Clearing Member, nor shall the Corporation become liable to make deliveries to or accept deliveries from any such Entity.
- (2) Notwithstanding the fact that a Clearing Member may not be a member of an Exchange on which Options or Futures trade, such Clearing Member shall nonetheless be subject to the position limits, exercise limits and any risk limits established by such Exchange.
- (3) ~~For the purposes of this Section, the term “Clearing System” shall mean both clearing systems and CDCC provides to Clearing Members, among other things, electronic data transmission systems and includes the CDCC Materials and all the facilities and services provided by the Corporation to Clearing Members~~ in connection with the acceptance and/or clearance of Transactions including, but not limited to, clearing and settlement, margining, holding of deposits and the preservation or communication of data in or through any computer or electronic data transmission system.
- (4) The Corporation shall not be required to perform any obligation under the Rules or make available ~~its Clearing System~~ CDCC nor shall it be held liable for any failure or delay in the performance of its obligations to any Clearing Member due to the unavailability of ~~the Clearing System~~ CDCC, if, as a result of *force majeure* or Emergency, it becomes impossible or impracticable to perform such

obligation or make available ~~its Clearing System~~CDCS, and where the Corporation could not, after using reasonable efforts (which would not require the Corporation to incur a loss other than immaterial, incidental expenses), overcome such impossibility or impracticability.

- (5) The Corporation shall not be liable to a Clearing Member for any direct or indirect or consequential loss, damage, loss of anticipated profit, loss of bargain, cost, expense, or other liability or claim suffered or incurred by or made against a Clearing Member as a result of the use by the Clearing Member of ~~the Corporation's Clearing System~~CDCS or any failure of ~~the Corporation's Clearing System~~CDCS or any act or omission of the Corporation, its directors, officers or employees, or members of any standing or ad hoc committee formed by the Corporation, regardless of whether such act or omission constitutes negligence. By making use of ~~the Corporation's Clearing System~~CDCS, Clearing Members expressly agree to accept any and all such loss, damage, cost, expense, or other liability or claim arising from the use of ~~such Clearing System~~CDCS.
- (6) The Corporation shall not be liable to a Clearing Member for any indirect or consequential loss, damage, loss of anticipated profit, loss of bargain, cost, expense, or any other liability or claim suffered or incurred by or made against a Clearing Member as a result of the failure by the Corporation to pay a Settlement Amount owing in respect of a transaction, regardless of whether such failure constitutes negligence.
- (7) In the event any legal proceeding is brought by any person against the Corporation seeking to impose liability on the Corporation as a direct or indirect result of the use by a Clearing Member of ~~the Corporation's Clearing System~~CDCS, the Clearing Member shall reimburse the Corporation for:
 - (a) all expenses and legal fees incurred by the Corporation in connection with the proceeding;
 - (b) any award pronounced against the Corporation in any judgment in the event it is found to be liable; and
 - (c) any payment made by the Corporation, with the consent of the Clearing Member, in settlement of any such proceeding.
- (8) The exemption from liability of the Corporation set out in this Section A-215 shall not extend to, nor limit liability for damages caused through an intentional or gross fault as defined in Article 1474 of the Civil Code of Québec.

Section A-216 Audited Statements of the Corporation

Within 120 days of director approval of its audited financial statements at the annual meeting of, the Corporation shall furnish at its expense to each Clearing Member one copy of:

- (a) the balance sheet forming part of its audited financial statements for such fiscal year, with accompanying notes related to the balance sheet;
- (b) the report of the Corporation's independent auditor thereon;
- (c) the report of the Corporation's independent auditors on the suitability of the system of internal controls of the Corporation with the objectives of internal control stated by the Corporation pertaining to its:

- (i) administration;
- (ii) information technology;
- (iii) trading/assignment/exercise; and
- (iv) margin and collateral.

Section A-217 Corporation as Agent Re Settlement Accounts

Each Clearing Member will establish a separate bank account for settling Transactions in each currency in which the Clearing Member trades (the “Settlement Accounts”). Each Clearing Member hereby appoints the Corporation to act as its agent, and the Corporation hereby accepts such appointment upon the terms and conditions hereof, solely for the purpose of effecting, on behalf of such Clearing Member, electronic payment instructions from the Settlement Accounts for the purpose of paying all amounts owing by the Clearing Member to CDCC. Nothing herein shall abrogate a Clearing Member’s obligations hereunder to maintain sufficient funds in the Settlement Accounts for the purposes of ensuring complete and timely settlement of the Clearing Member’s obligations hereunder.

Section A-218 Waiver of Immunity

Each Clearing Member irrevocably waives, with respect to itself and all of its revenues and assets, all immunity on the grounds of sovereignty or other similar grounds from suit, jurisdiction of any court, relief by way of injunction, order for specific performance or for recovery of property, attachment of its assets (whether before or after judgment) and execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any proceedings in the courts of any jurisdiction and irrevocably agrees that it will not claim any such immunity in any proceedings.

Section A-219 Paramountcy

In the event of any conflict between the Operations Manual (including any Schedule to the Operations Manual) and these Rules (without reference to the Operations Manual), the terms and conditions of the Rules (without reference to the Operations Manual) will govern to the extent of such inconsistency.

Section A-220 Governing Law

The Rules shall be governed by and construed in accordance with the laws of the province of Quebec and the federal laws of Canada applicable therein. Each Clearing Member, by virtue of its membership in the Corporation, attorns to the jurisdiction of the courts of Quebec.

RULE A-3 CAPITAL REQUIREMENTS

Section A-301 Minimum Capital Requirements

- (1) Unless a specific temporary exception is made by the Corporation in the case of a particular Clearing Member due to unusual circumstances, a Clearing Member shall not at any time permit its minimum capital to be less than:
 - (a) the minimum capital adequacy requirement adopted from time to time by the Investment Industry Regulatory Organization of Canada, for an SRO Clearing Member; or
 - (b) the minimum capital adequacy requirement adopted from time to time by the Office of the Superintendent of Financial Institutions, for a Bank Clearing Member.
- (2) Every Clearing Member shall file with the Corporation, on request, a report covering the computation of the capital requirements.
- (3) A Fixed Income Clearing Member, in spite of Subsection A-301(1), must also meet the following criteria:
 - (a) if it submits only Firm Fixed Income Transactions,
 - (i) have minimum capital of \$50,000,000 and be a primary dealer for government securities auctions for the Bank of Canada; or
 - (ii) have minimum capital of \$100,000,000.
 - (b) if it submits both Firm Fixed Income Transactions and Client Fixed Income Transactions, have minimum capital of \$200,000,000.
 - (c) for the purpose of this Subsection A-301(3), “capital” means the Clearing Member’s shareholder’s equity as reflected in its most recent financial statement filed with the Investment Industry Regulatory Organization of Canada or with Office of the Superintendent of Financial Institutions, as the case may be, in accordance with Section A-305, which financial statement is updated on a monthly basis. The Corporation may also, in its sole discretion, take into consideration other forms of capital as a substitute for shareholder’s equity, including the subordinated debt of the Clearing Member or an irrevocable parent company guarantee covering the Clearing Member satisfactory to the Corporation.
 - (d) for the purpose of this Subsection A-301(3), “Firm Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for its own account and for the account of any of its Affiliates, and “Client Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for the account of any of its Clients, other than any of its Affiliates.

Section A-302 Minimum Capital

No Transaction shall be cleared by the Corporation for any Clearing Member from the time the Corporation acquires actual knowledge that such Clearing Member does not meet the minimum capital adequacy requirements prescribed in Section A-301.

Section A-303 Early Warning

A Clearing Member shall notify the Corporation immediately if such a Clearing Member has any indication or suspicion that it may not meet the minimum capital adequacy requirements prescribed in Section A-301 or that any calculation of its capital requirement, as determined from time to time by the Corporation, reflects a capital deficiency or early warning situation as provided in this Section A-303.

An SRO Clearing Member shall advise the Corporation immediately if such Clearing Member enters any early warning level (as defined from time to time by the Investment Industry Regulatory Organization of Canada.)

A Bank Clearing Member shall advise the Corporation immediately if such Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the Office of the Superintendent of Financial Institutions.

Section A-304 Audits

- (1) The Corporation has the authority to inspect the books and records of Clearing Members and may require any Clearing Member and any specific director, officer, employee or auditor thereof to appear personally before the Corporation and produce its books and records and answer questions regarding any actual or alleged violation of the Rules.
- (2) Unless otherwise agreed to by the Corporation, the audit of the financial statements of a Clearing Member will take place on the fiscal year-end of such Clearing Member.
- (3) The audit of the financial statements of a Clearing Member shall be conducted in accordance with generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding securities. It shall include all audit procedures necessary under the circumstances to support the opinions which must be expressed to meet all legal and regulatory requirements applicable to such Clearing Member.

Clearing Members shall cause their auditors to also comment on any material inadequacies found to exist in the accounting system, the internal accounting control or in the procedures for safeguarding securities and shall indicate any corrective action the Clearing Member has taken or which it proposes to implement and shall provide copies of these comments to the Corporation.

Section A-305 Filing Procedures

- (1) Each SRO Clearing Member shall deliver to the Corporation one copy of Parts I and II of the Joint Regulatory Financial Questionnaire and Report, together with the certificate of partners or directors, as required by the self-regulatory body of which such SRO Clearing Member is a member, in the form prescribed by such self-regulatory body at the same time such documents are provided to the self-regulatory body.
- (2) Each Bank Clearing Member shall deliver to the Corporation one copy of the Capital Adequacy Return, as required by the Office of Superintendent of Financial Institutions, in the form prescribed

by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions, and one copy of its annual financial statements, in the form prescribed by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions.

Section A-306 Special Examinations

- (1) The Corporation may at any time require the Corporation's auditor to make any general or special examination of the financial affairs of any Clearing Member or to report upon the whole or any aspect of the business or affairs thereof.
- (2) The Corporation's auditor for the purpose of this special examination shall be entitled to request from the Clearing Member, or its auditors, any information or items which the auditors believe to be relevant to any transactions directly or indirectly related to the business of the Corporation and no person or Clearing Member shall withhold, conceal, destroy or refuse to give any such information or items reasonably required by the Corporation's auditors for the purpose of this examination. A Clearing Member must provide any information or items requested by the Corporation's auditor within the time period specified in the request.

Section A-307 Board Action Relating to Capital Deficiency Concerns

- (1) If the Board determines as a result of any early warning notice under Section A-303, filing under Section A-304 or A-305, general or special examination under Section A-306, or from any other information given to or obtained by it, including from an appropriate self-regulatory organization or regulatory agency, that a Clearing Member does not have minimum capital satisfying the requirements referred to in Section A-301 or otherwise is in or is believed by the Board in its sole discretion to be in, such financial condition that the Board in its sole discretion deems it is undesirable in the public interest or in the interest of the Corporation that the Corporation continue to accept and/or clear such Clearing Member's Transactions, the Board pursuant to Rule A-1A may at any time suspend such Clearing Member concerned for such period and on such terms and conditions as the Board may determine and notice thereof shall be issued promptly to other Clearing Members in accordance with Section A-1A06.
- (2) The Board may as an alternative determine that it is in the interest of the public or in the interest of the Corporation that the Corporation continue to accept and/or clear such Clearing Member's Transactions but that the Corporation's auditors should regulate and generally supervise the operations of the Clearing Member, as they relate to its activities or performance as a Clearing Member, for such period and in such manner as the Corporation may direct. Notice thereof shall be issued promptly to other Clearing Members.
- (3) Any examination, report or supervision required by the Corporation pursuant to this Rule A-3 shall be conducted at the expense of the Clearing Member involved.

Section A-308 Restrictions on Certain Transactions and Positions

- (1) If the Board shall at any time determine that the financial or operational condition of a Clearing Member makes it necessary or advisable, for the protection of the Corporation, other Clearing Members or the general public, to impose restrictions on such Clearing Member's Transactions with the Corporation, the Board shall have the authority:

- (a) to prohibit or to impose limitations on the acceptance and/or clearance of Opening Purchase Transactions, Opening Writing Transactions or newly concluded OTCI transaction by such Clearing Member;
- (b) to require such Clearing Member to reduce or eliminate existing Long Positions or Short Positions in such Clearing Member's accounts with the Corporation; and/or
- (c) to require such Clearing Member to transfer any account maintained by such Clearing Member with the Corporation, any Transaction maintained in any such account, or any account carried by such Clearing Member, to another Clearing Member.

RULE A-4 ENFORCEMENT

Section A-401 Action against a Non-Conforming Member

- (1) In addition to a measure made available to the Corporation under the Rules and the Application for Membership to remedy a specific or general default of a Clearing Member, where a Clearing Member is a Non-Conforming Member, the Corporation may take any one of the actions prescribed by the Rules in respect of such Clearing Member including, but not limited to:
 - (a) prohibiting and/or imposing limitations on the acceptance and/or clearance of Transactions by such Clearing Member;
 - (b) requiring such Clearing Member to reduce or close out (or closing out on behalf of such Clearing Member) existing Transactions in such Clearing Member's accounts with the Corporation and, upon such close out, converting all amounts into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation;
 - (c) requiring such Clearing Member to transfer any account maintained by such Clearing Member with the Corporation, any position maintained in any such account, or any account carried by such Clearing Member, to another Clearing Member;
 - (d) applying the Margin Deposit (including, without limitation, Margin and Clearing Fund) of the Non-Conforming Member against the obligations of the Non-Conforming Member to the Corporation, subject to Subsection A-402(3) and, for such purpose, selling, transferring, using or otherwise dealing or disposing of any property deposited as Margin Deposit at any time, without prior notice to the Non-Conforming Member;
 - (e) sanctioning, reprimanding, fining or imposing a penalty on it;
 - (f) prevent or restrict the Clearing Member's right to withdraw any excess in Margin Deposits pursuant to Section A-607 or Section A-704; and
 - (g) suspending the Non-Conforming Member.
- (2) The actions contemplated by the Rules in respect of Non-Conforming Members may be taken in any sequence the Corporation deems appropriate.

Section A-402 Creation of Liquidating Settlement Account

- (1) Upon the suspension of a Clearing Member, the Corporation may convert to cash all Margin Deposits with the Corporation by such Clearing Member in all accounts (including Securities held in bulk deposit but excluding Securities held in specific deposit) including all of such Clearing Member's contributions to Clearing Funds. For purposes of making any such conversion to cash of Margin Deposits, the Corporation may sell, transfer, use or otherwise deal or dispose of any property deposited as Margin Deposit at any time, without prior notice to such Clearing Member. These and all other funds of the suspended Clearing Member subject to the control of the Corporation shall be placed by the Corporation in a special account, to be known as the Liquidating Settlement Account, for the purposes hereinafter specified.

- (2) Notwithstanding the provisions of Subsection A-402(1), if the Corporation shall determine in its sole discretion, taking into account the size and nature of a suspended Clearing Member's Margin Deposits, the market condition prevailing at the time, the potential market effects of liquidating transactions that might be directed by the Corporation, and such other circumstances that the Corporation deems relevant, that the conversion to cash of some or all of the suspended Clearing Member's Margin Deposits would not be in the best interest of the Corporation, other Clearing Members or the general public, such deposits need not be converted to cash, provided that any determination made pursuant to this Subsection shall be reported to the Board within 24 hours.

- (3) Notwithstanding the provisions of Subsection A-402(1) and Subsection A-402(2), Margin Deposits with respect to a Client Account shall only secure the performance by the Clearing Member of its obligations in respect of that Client Account, and Margin Deposits with respect to a Market Maker Account shall only secure the performance by the Clearing Member of its obligations in respect of that Market Maker Account; provided, however, that if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation shall use Margin Deposits without distinction as securing all the obligations of the Clearing Member in respect of all its accounts.

Section A-403 Pending Transactions

- (1) Transactions submitted by a Clearing Member after it has been suspended shall be accepted or rejected by the Corporation in accordance with the regulations, rules and policies of the Exchange or Acceptable Marketplace on which they took place, and in the event that an Exchange Transaction is rejected, it shall be closed by the Clearing Member thereto in accordance with the Rules or in accordance with the regulations, rules and policies of the Exchange or Acceptable Marketplace on which the transaction was effected.

- (2) With respect to Open Positions and accepted Transactions:
 - (a) monies payable to the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation in the Client Account shall be deposited by the Corporation in a Clients Settlement Account for remittance to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law;

 - (b) monies payable to the suspended Clearing Member in Settlement of Gains and Losses in the respective Market Maker Accounts shall be held in such accounts pending the closing of all Open Positions and transactions in such accounts for application in accordance with the applicable Market Maker Account agreement;

 - (c) monies payable to the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-To-Market Valuation in the Firm Account ~~(as well as in the Market Maker Accounts)~~ shall be credited by the Corporation to the Liquidating Settlement Account;

 - (d) monies owed to the Corporation in Settlement of Gains and Losses and/or Mark-To-Market Valuation in any account shall be withdrawn by the Corporation from the Liquidating Settlement Account;

 - (e) monies owed to the Corporation in Settlement Amounts for settlements not yet paid, will remain in the Liquidating Settlement Account in the form of Margin Deposits until the next

available Settlement Time consistent with the Transaction from which the Settlement Amounts were derived;

- f) monies payable to the suspended Clearing Member in Settlement Amounts for settlements not yet paid, will remain in the Liquidating Settlement Account in the form of Margin Deposits until the next available Settlement Time consistent with the Transaction from which the Settlement Amounts were derived.

Section A-404 Open Positions

- (1) Open Positions of a suspended Clearing Member, may, in the Corporation's sole discretion, be closed by the Corporation at such price as the Corporation deems reasonable, transferred to another Clearing Member in accordance with the auction process set forth in the Operations Manual, or maintained by the Corporation. Amounts payable to the Corporation in Settlement of Gains and Losses and/or Mark-to-Market Valuation, as a result of closing transactions effected by the Corporation shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; provided, however, that amounts payable to the Corporation in Settlement of Gains and Losses in a Market Maker Account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account. Amounts receivable by the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation as a result of a closing transaction effected by the Corporation or the transfer of an Open Position shall be credited to the suspended Clearing Member's Liquidating Settlement Account. Clients affected by any closing or transfer of an Open Position shall be notified as promptly as possible.
- (2) With respect to Options:
 - (a) Open Long Positions in the Client Account of a suspended Clearing Member shall be maintained by the Corporation. The Corporation shall promptly use its best efforts to identify each Client having a Long Position in such account, to transfer each such Client's Long Position to another Clearing Member, and to notify each such Client of such transfer; in the event that notwithstanding the best efforts of the Corporation any Long Position in a Client Account of a suspended Clearing Member cannot promptly be transferred to another Clearing Member, such Long Position may be closed by the Corporation in the most orderly manner practicable and the proceeds shall be deposited in a Clients Settlement Account;
 - (b) Open Long Positions in any Market Maker Account of a suspended Clearing Member shall be closed by the Corporation in the most orderly manner practicable and the proceeds of such closing transactions shall be held in such account pending the closing out of all Open Positions and transactions for application in accordance with the applicable Market Maker Account Agreement;
 - (c) Open Long Positions in a suspended Clearing Member's Firm Account shall be closed by the Corporation in the most orderly manner practicable, and the proceeds of such closing transactions shall be credited by the Corporation to the suspended Clearing Member's Liquidating Settlement Account; and
 - (d) Open Short Positions in any account of a suspended Clearing Member may, in the Corporation's sole discretion, be closed by the Corporation at such price as the Corporation deems reasonable, transferred to another Clearing Member, or maintained by the

Corporation. Amounts payable to the suspended Clearing Member in settlement of Closing Purchase Transactions effected by the Corporation shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; provided, however, that amounts payable to the suspended Clearing Member in settlement of Closing Purchase Transactions in a Market Maker Account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account. Clients affected by any closing or transfer of a Short Position, if known to the Corporation, shall be notified as promptly as possible.

- (3) If the Corporation elects or is required pursuant to this Section A-404 to close both Long Positions and Short Positions in the same series of Options or Futures or Fixed Income Transactions with respect to the same Acceptable Security or OTCI options carried by a suspended Clearing Member, the Corporation may, ~~in lieu of closing~~ close such positions through closing transactions on an Exchange, ~~(in the case of Options and Futures only) or~~ offset such positions against each other, reducing the Open, Long and Short Positions of the Clearing Member in such series by the same number of Option contracts or Futures contracts or reducing the open position of the Clearing Member in Fixed Income Transactions with respect to the same Acceptable Security or in OTCI options. If the Corporation closes positions in any series of Options or Futures or Fixed Income Transactions with respect to the same Acceptable Security or OTCI options by offset pursuant to the foregoing sentence, the Corporation shall notify the suspended Clearing Member or its representative thereof, and such positions shall be deemed to have been closed at a price equal to the closing Market Price as determined by the Exchange involved for such series on the date when the positions were offset in the case of Options or Futures or at a price determined by the Corporation in the case of Fixed Income Transactions with respect to the same Acceptable Security or OTCI options.
- (4) Notwithstanding the provisions of Subsection A-404(3), if the Corporation, through an officer or designated representative, shall determine in its sole discretion, taking into account the size and nature of a suspended Clearing Member's positions, the market conditions prevailing at the time, the potential market effects of liquidating Transactions that might be directed by the Corporation, and such other circumstances as the Corporation deems relevant, that the closing out of some or all of the suspended Clearing Member's Transactions would not be in the best interests of the Corporation, other Clearing Members or the general public, such positions need not be closed out, provided that any determination made pursuant to this Subsection shall be reported to the Board within 24 hours.
- (5) If the Corporation, through an officer or its other designated representative shall:
- (a) determine that the Corporation is unable, for any reason, to close out in a prompt and orderly fashion, any Transactions or to convert to cash any Margin Deposits of a suspended Clearing Member, or
 - (b) elect pursuant to Subsection A-404(4) not to close out any such Transactions or pursuant to Subsection A-402(2) not to convert to cash any such Margin Deposits, the Corporation may authorize the execution from time to time for the account of the Corporation, solely for the purpose of reducing the risk to the Corporation resulting from the continued maintenance of such positions or the continued holding of such Margin Deposits, of hedging transactions, including, without limitation, the purchase or sale of Underlying Interests or interests deemed similar thereto or Transactions on any such Underlying Interests or similar interests. The Corporation may delegate to specified officers or agents of the Corporation the authority to determine, within such guidelines, if any, as the Corporation may prescribe, the

nature and timing of such hedging transactions. Any authorizing of hedging transactions shall be reported to the Board within 24 hours, and any such transactions that are executed shall be reported to the Board on a daily basis. Hedging transactions effected for the account of the Corporation pursuant to this Paragraph shall be closed out or exercised promptly as the positions to which they relate are eliminated, whether by expiration, transfer, close out or assignment. Any cost or expenses, including losses sustained by the Corporation in connection with Transactions effected for its account pursuant to this Paragraph shall be charged to the Liquidating Settlement Account of the suspended Clearing Member, and any gains realized on such Transaction shall be credited to such Liquidating Settlement Account; provided, however, that costs, expenses and gains related to the hedging of positions in a Market Maker Account or a Client Account shall be charged or credited, as the case may be, to that account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account. Reasonable allocations of costs, expenses and gains among accounts made by the Corporation for the purpose of implementing the proviso to the preceding sentence shall be binding on the Clearing Member and any persons claiming through the Clearing Member and the respective successors and assigns.

Section A-405 Exercised Options and Tender Notices

Unless the Corporation stipulates otherwise in a particular case, exercised Options to which a suspended Clearing Member is a party or Futures which have been the subject of Tender Notice to which a suspended Clearing Member is a party shall be closed through the procedures set forth in Sections B-404, B-405, C-510 and C-511, respectively, except that the Corporation may decide not to buy-in or sell-out, as the case may be, in the event that the Corporation is informed that the Underlying Interest is in transit or transfer. All losses and gains on such buy-ins and sell-outs shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member; provided, however, that all losses on such buy-ins and sell-outs in a Market Maker Account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account.

Section A-406 Amounts Payable to the Corporation

The Corporation shall be entitled promptly to recover from a suspended Clearing Member, any amount payable to the Corporation in accordance with these Rules, including all costs and expenses, including legal expenses, incurred by the Corporation, from such Clearing Member's Liquidating Settlement Account with the Corporation upon completion of the liquidation of such Clearing Member's positions in accordance with this Rule A-4.

Section A-407 Member Claims

All claims upon the Liquidating Settlement Account of a suspended Clearing Member by other Clearing Members resulting from losses incurred when closing pending transactions, or closing Open Positions or in the delivery of Underlying Interests or buying in or selling out exercised Options in accordance with this Rule A-4 shall be filed with the Corporation in the form prescribed. Such claims shall be paid as follows:

- (1) Claims for losses incurred when closing pending transactions with a suspended Clearing Member that are rejected for clearance shall be subordinate to all other claims upon the Liquidating

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Settlement Account. The Corporation shall pay such claims, to the extent funds are available, from the Liquidating Settlement Account of the suspended Clearing Member only after payment of all other applicable claims, and such claims shall not constitute a claim upon the Clearing Fund contributions of other Clearing Members; and

- (2) Claims for losses incurred on buy-ins and sell-outs, and the closing of Open Positions, shall be senior to all other claims upon the Liquidating Settlement Account. If a buy-in, sell-out or closing transaction does not occur by the close of the first full Business Day immediately following the issuance of the notice of suspension, the claim thereon shall be limited to the amount that would have been recoverable if, in the case of a buy-in or sell-out, the buy-in had been made at the highest price or the sell-out at the lowest price at which the Underlying Interest traded in the market in which it trades, on the first full Business Day or, in the case of the closing of Open Positions, if the positions had been closed by the close of the first full Business Day.

Section A-408 No Waivers

No failure by the Corporation to exercise, nor any delay on its part in exercising, any of its rights (in whole or in part) under these Rules shall operate as a waiver of the Corporation's rights or remedies upon that or any subsequent occasion, nor shall any single or partial exercise of any right or remedy prevent any further exercise thereon or any other right or remedy.

Section A-409 Clearing Member Close-Out Rights

- (1) The provisions of this Section A-409 apply to all Transactions. In the event of any inconsistency between the provisions of this Section A-409 and the other provisions of the Rules, the provisions of this Section A-409 will prevail.
- (2) The occurrence of either of the following events in respect of CDCC will constitute an event of default (an "Event of Default"):
- (a) an Insolvency Event within the meaning of Paragraph A-409(3)(a); and
- (b) a Failure to Pay within the meaning of Subsection A-409(4).
- (3) (a) An "Insolvency Event" occurs if:
- (i) CDCC commences an Insolvency Proceeding with respect to it or an Insolvency Proceeding is commenced with respect to CDCC; provided, however, that an "Insolvency Event" will not occur if a Clearing Member institutes any action as a result of a Failure to Pay by CDCC which results in the commencement of an Insolvency Proceeding;
- (ii) any regulatory or governmental authority having jurisdiction over CDCC in Canada (a "Competent Authority") institutes any action which results in the commencement of an Insolvency Proceeding; or
- (iii) a Competent Authority takes any action under any derivatives, securities, payment or clearing or similar law of Canada (or any province or territory thereof) which prevents CDCC from performing when due its payment or delivery obligations to Clearing Members under the Rules.

- (b) Each Clearing Member agrees to not institute any action as a result of a Failure to Pay by CDCC which may result in the commencement of an Insolvency Proceeding with respect to CDCC.
- (c) “Insolvency Proceedings” means proceedings for the purpose of liquidating, restructuring or reorganizing the assets and liabilities of CDCC under the *Bankruptcy and Insolvency Act* (Canada) (“BIA”), under the *Companies’ Creditors Arrangement Act* (Canada) (“CCAA”), under a court-supervised interim receivership under the BIA, or under a court-supervised receivership in accordance with rules of the common law or other laws of general application relative to the powers of the courts.
- (d) For the purposes of the Rules, Insolvency Proceedings shall be deemed to commence at the following times:
- (i) bankruptcy proceedings under the BIA commence on the day that (A) CDCC files an assignment in bankruptcy; (B) a bankruptcy order is made in respect of CDCC; or (C) in connection with proposal proceedings, CDCC is deemed to have made an assignment in bankruptcy, including (x) if CDCC gives notice of intention to file a proposal but no cash flow statement as required by the BIA or no proposal is filed within the applicable time period allowed following the notice of intention to file a proposal, which is the date that the applicable time period expires, (y) if a filed proposal is rejected by creditors, which is the date that the creditors refuse the proposal, or (z) if an approved proposal is later annulled by the court, which is the date of the annulment order;
- (ii) proposal proceedings under the BIA commence on the day the notice of intention to file a proposal is made or, if no notice is made, on the day the proposal is filed;
- (iii) proceedings under the CCAA commence on the day that a court makes an order under the CCAA with respect to the affairs of CDCC; and
- (iv) court-supervised receivership proceedings commence on the day that the court makes an order placing the assets of CDCC under the control of its interim receiver, receiver or receiver-manager.
- (4) A “Failure to Pay” means:
- (a) a Payment Default within the meaning of Subsection A-409(5); or
- (b) a Non-Payment of the Cash Settlement Amount following a Delivery Default within the meaning of Subsection A-409(6).
- (5) A “Payment Default” occurs if:
- (a) CDCC fails to make when due any payment (including a payment under Subsection A-804(5) but excluding a payment of a Cash Settlement Amount following a Delivery Default under Subsection A-409(6)) in respect of a payment claim of a Clearing Member against CDCC under a Transaction;
- (b) such Clearing Member notifies CDCC in writing of such failure (a “Payment Request”);

- (c) CDCC's failure to make such payment to such Clearing Member continues for a period of more than 30 days after the date of the Payment Request; and
 - (d) such Clearing Member is neither a Non-Conforming Member nor a suspended Clearing Member.
- (6) (a) A "Non-Payment of the Cash Settlement Amount following a Delivery Default" occurs if a Delivery Default occurs within the meaning of paragraph A-409(6)(b) and a Cash Settlement Payment Default also occurs within the meaning of paragraph A-409(6)(c).
- (b) A "Delivery Default" occurs if:
- (i) CDCC fails to perform, when due, any delivery obligation to a Clearing Member arising from any Transaction other than a Failed Delivery pursuant to Subsection A-804(2);
 - (ii) such Clearing Member has requested CDCC in writing to fulfill such delivery obligation (a "Delivery Request");
 - (iii) after the expiry of a period of not less than 30 days following the date of the Delivery Request, if CDCC's failure to perform is continuing, the affected Clearing Member requests in writing a cash settlement amount determination of the unsatisfied delivery obligation from the Calculation Agent (a "Cash Settlement Amount Calculation Request"); and
 - (iv) such Clearing Member is neither a Non-Conforming Member nor a suspended Clearing Member.

From the date of a Cash Settlement Amount Calculation Request (a "Cash Settlement Amount Calculation Request Date"), CDCC will no longer be obliged to make any delivery under the relevant Transaction. This obligation will be replaced by an obligation of CDCC to pay the Clearing Member the Cash Settlement Amount.

- (c) A "Cash Settlement Payment Default" occurs if:
- (i) after the expiry of a period of not less than five Business Days following the Cash Settlement Amount Calculation Request Date, the Clearing Member which made such request has requested CDCC in writing to pay the Cash Settlement Amount (a "Cash Settlement Payment Request");
 - (ii) after the expiry of a period ending on a Business Day which is not less than two days after the date of the Cash Settlement Payment Request, CDCC fails to pay such Clearing Member the Cash Settlement Amount; and
 - (iii) such Clearing Member is neither a Non-Conforming Member nor a suspended Clearing Member.
- (d) Upon the Cash Settlement Amount Calculation Request Date, the Calculation Agent will calculate the cash settlement amount ("Cash Settlement Amount") within five Business Days of the Cash Settlement Amount Calculation Request as follows:

- (i) the Default Value of the assets which are the subject of the Delivery Default (the “Non-delivered Assets”) will be determined by the Calculation Agent;
- (ii) the Default Value of Non-delivered Assets will be set-off against the amount of the corresponding payment obligation of the Clearing Member under the relevant Transaction, such that the Cash Settlement Amount shall be equal to any such net amount which is owed by CDCC or the Clearing Member, whichever has the claim valued at the lowest amount; and
- (iii) “Default Value” means with respect to any Non-delivered Assets, the value of such assets determined by the Calculation Agent using the following method:
- The basis of the calculation will be the price for the Non-delivered Assets on the Business Day prior to the Cash Settlement Amount Calculation Request Date. To determine such price, the Calculation Agent will use the average of three quoted prices from Clearing Members other than the affected Clearing Member which participate in the relevant market and which shall quote a market price of the Non-delivered Assets as of the Business Day preceding the Cash Settlement Amount Calculation Request Date. The average of the quoted prices will be the Default Value of the Non-delivered Assets. If less than three quotations are provided as requested or the resulting price does not accurately reflect the value of the Non-delivered Assets because the relevant market is not operating normally, the Calculation Agent will determine the Default Value for the Non-delivered Assets acting in good faith and by using commercially reasonable procedures expected to produce a commercially reasonable result.
- (e) When the Calculation Agent determines a Cash Settlement Amount for Non-delivered Assets, it will be entitled to terminate, on a *pro rata* basis, Transactions with the affected Clearing Member from which CDCC has a claim to receive assets of the same kind up to the same quantity of assets to offset the original Transaction in respect of which CDCC would otherwise be required to pay a Cash Settlement Amount to the affected Clearing Member. With respect to any such terminated Transaction, the affected Clearing Member shall not be required to perform its obligation to deliver the relevant assets to CDCC and the Calculation Agent will determine the Cash Settlement Amount by offsetting the corresponding payment obligation of CDCC under any such terminated Transaction against the corresponding payment obligation of the affected Clearing Member under the original Transaction and such net amount shall be owed by CDCC or the Clearing Member, whichever has the claim valued at the lowest amount.
- (7) If at any time an Event of Default has occurred and is then continuing, the affected Clearing Member, in the case of an Event of Default which stems from a Failure to Pay, or any Clearing Member, in the case of an Event of Default which stems from an Insolvency Event, may by giving no less than two and not more than five Business Days’ written notice to CDCC, designate an early termination date (“Early Termination Date”) in respect of all Transactions to which such Clearing Member is a party.
- (8) Upon the effective designation of an Early Termination Date pursuant to Subsection A-409(7), neither CDCC nor the relevant Clearing Member will be obliged to make any further payment or delivery under the applicable Transactions which would have become due thereafter. These

obligations will be replaced by an obligation of either CDCC or the relevant Clearing Member, as applicable, to pay a Final Settlement Amount for all Transactions entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions entered into in respect of Market Maker Accounts and a Final Settlement Amount for all Transactions entered into in respect of Firm Accounts, all in accordance with Subsection A-409(10).

- (9) The Calculation Agent is CDCC which will be responsible for calculating any Cash Settlement Amount under Subsection A-409(6) and any Final Settlement Amount under Subsection A-409(10).
- (10) Upon the effective designation of an Early Termination Date pursuant to Subsection A-409(7), the Calculation Agent will as soon as practicable calculate the final settlement amount as follows:
- (a) “Final Settlement Amount” means the amount determined by the Calculation Agent to be equal to, as of the Early Termination Date, (a) the sum of all Transaction Values which are positive for CDCC and the Amounts Due owed to CDCC less (b) the absolute value of the sum of the amounts of all Transaction Values which are negative for CDCC and the Amounts Due owed by CDCC. When determining the Final Settlement Amount, the Calculation Agent shall act in good faith and by using commercially reasonable procedures expected to produce a commercially reasonable result. The Calculation Agent will calculate a Final Settlement Amount for all Transactions entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions entered into in respect of Market Maker Accounts and a Final Settlement Amount for all Transactions entered into in respect of Firm Accounts. The Final Settlement Amount in respect of Client Accounts and that in respect of Firm Accounts will not be netted or set-off.
- (b) “Transaction Value” means, with respect to any Transaction or group of Transactions, an amount equal to the loss incurred (expressed as a positive number) or gain realized (expressed as a negative number) by CDCC as a result of the designation of the Early Termination Date in respect of such Transaction(s), determined by calculating the arithmetic mean of the quotations for replacement or hedge transactions on the Quotation Date obtained by the Calculation Agent from not less than two leading market participants, including Clearing Members other than the affected Clearing Member. Each such quotation shall be expressed as the amount which the market participant would pay or receive on the Quotation Date if such market participant were to assume, as from the Quotation Date, the rights and obligations of CDCC (or their economic equivalent) under the relevant Transaction(s). The resulting amount shall be expressed as a positive number if it would be payable to the market participant, and shall otherwise be expressed as a negative number.
- (c) “Quotation Date” means the Early Termination Date.
- (d) “Amounts Due” owed by a party means the sum of (i) any amounts that were required to be paid by such party or would have been required to be paid by such party but for the designation of the Early Termination Date under any Transaction on or prior to the Early Termination Date, but not paid, (ii) the Termination Value, as of the agreed delivery date, of each asset that was required to be delivered by such party on or prior to the Early Termination Date under any Transaction, but not delivered (in either case regardless of whether or not the party was entitled to withhold such payment or delivery), and (iii) interest calculated daily based on the applicable CORRA Rate (provided, however, that

for any day which is not a Business Day, the CORRA Rate applicable on the immediately preceding Business Day shall be used for such purpose) on the amounts specified in (i) and (ii) from (and including) the due date of the relevant payment or delivery to (but excluding) the Early Termination Date.

- (e) “Termination Value” means, in respect of any assets on any given date, an amount equal to the market price (including fees and expenses) which such party would have reasonably incurred in purchasing assets of the same kind and quantity in the market on such date; provided, however, that if a market price for such assets cannot be determined, an amount which the Calculation Agent determines in good faith to be the total losses and costs (or gains, as applicable) in connection with such assets.
- (11) The Final Settlement Amount in respect of Client Accounts, as calculated by the Calculation Agent, will be payable (i) to CDCC by the Clearing Member if it is a positive number and (ii) by CDCC to the Clearing Member if it is a negative number; in the latter case the amount payable shall be the absolute value of such Final Settlement Amount. The Final Settlement Amount in respect of Market Maker Accounts, as calculated by the Calculation Agent, will be payable (i) to CDCC by the Clearing Member if it is a positive number and (ii) by CDCC to the Clearing Member if it is a negative number; in the latter case the amount payable shall be the absolute value of such Final Settlement Amount. The Final Settlement Amount in respect of Firm Accounts, as calculated by the Calculation Agent, will be payable (i) to CDCC by the Clearing Member if it is a positive number and (ii) by CDCC to the Clearing Member if it is a negative number; in the latter case the amount payable shall be the absolute value of such Final Settlement Amount.
- (12) The Calculation Agent will notify the affected Clearing Member in writing as soon as practicable of the Final Settlement Amount calculated by it and provide a statement setting forth in reasonable detail the basis on which the Final Settlement Amount was determined. The Final Settlement Amount is payable by CDCC or the Clearing Member, as applicable, immediately upon receipt of such notice.
- (13) The affected Clearing Member may set off its obligation (if any) to pay the Final Settlement Amount against any actual or contingent claims (“Counterclaims”) which it has against CDCC arising from CDCC’s obligations to that Clearing Member under any other contractual arrangement, as applicable. For the purpose of calculating the value of the Counterclaims, the Clearing Member shall (i) to the extent that they are contingent or unascertained, take into account for such calculation their potential amount, if ascertainable, or otherwise a reasonable estimate thereof, (ii) to the extent that they are claims other than for the payment of money, determine their value in money and convert them into a money claim and (iii) to the extent that they are not yet due and payable, determine their present value (also having regard to interest claims).
- (14) (a) A Clearing Member’s close-out rights under this Section A-409 supersede its right to voluntarily withdraw as a Clearing Member set out in Section A-1A09. For greater certainty, an affected Clearing Member cannot exercise its right to withdraw from its membership if an Event of Default has occurred or any circumstance or event has occurred which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

- (b) A Failure to Pay will be deemed not to have occurred if the Failure to Pay occurs as a result of a circumstance within the meaning of clause i) of the definition of an Emergency in Section A-102 or which is otherwise a force majeure.

Section A-410 – Eligible Financial Contracts

- (1) CDCC and each Clearing Member acknowledge that:
- (a) the payment and delivery obligations of a Clearing Member and of CDCC arising from a Transaction constitute an eligible financial contract between CDCC and the Clearing Member;
 - (b) each of the Membership Agreement and the Rules constitute master agreements in respect of such eligible financial contracts and accordingly are also eligible financial contracts between CDCC and each Clearing Members; and
 - (c) the provisions of the Membership Agreement and the Rules which are of the type described in section 11.1 of the *Derivatives Act* (Québec) constitute an instrument contemplated by such section 11.1 and are considered to have been reiterated immediately after the coming into effect on November 30, 2011 of said section, and CDCC and each Clearing Member therefore benefit from the provisions of sections 11.1 and 11.2 of the *Derivatives Act* (Québec).
- (2) The Rules and the Membership Agreement shall be interpreted so as to ensure that CDCC or a Clearing Member, as the case may be, is accorded the rights and powers of a party to an eligible financial contract pursuant to the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Winding-Up and Restructuring Act* (Canada), the *Canada Deposit Insurance Corporation Act* or any similar legislation.
- (3) With respect to the *Payment Clearing and Settlement Act* (Canada), the provisions of the Membership Agreement and the Rules constitute (i) settlement rules of a designated clearing and settlement system within the meaning of section 8 of that Act, effective as of CDCC's designation under subsection 4(1) of that Act; (ii) a netting agreement between two or more financial institutions within the meaning of section 13 of that Act; and (iii) a netting agreement between a securities and derivatives clearing house and a clearing member within the meaning of section 13.1 of that Act.

RULE A-5 DISCIPLINARY PROCEEDINGS

Section A-501 Sanctions

- (1) The Corporation may in addition to or in lieu of other measures, impose a fine or a penalty, not to exceed \$250,000, on, and assess any reasonable costs, including legal fees, incurred by the Corporation against any Non-Conforming Member for any violation of any provision of the Application for Membership, or for any neglect or refusal by such Non-Conforming Member to comply with any applicable order or direction of the Corporation, or for any error, delay or other conduct embarrassing to the operations of the Corporation or for failure to provide adequate personnel or facilities for its transactions with the Corporation.
- (2) The Corporation shall be entitled to recover from any Non-Conforming Member the amount of any fines or penalties or sanctions assessed against it, plus the Corporation's reasonable costs and expenses, including legal expenses, incurred in connection with the matter giving rise to the fine or penalty or sanction.

Section A-502 Procedures

- (1) Except as provided for in Subsection A-502(4) and in Section 7 of the Operations Manual with respect to late payments, the nature and quantum of any fine or penalty or sanction shall be determined and imposed by the Board. Before any sanction and/or fine and/or penalty is imposed by the Board, the Corporation shall furnish the Non-Conforming Member with a concise written statement of the charges. The written statement of charges shall contain any provision of the Application for Membership which is alleged to have been violated; the facts alleged and intended to be relied upon by the Corporation and the penalty or remedy recommended by the Corporation for each violation.
- (2) In the event that a Non-Conforming Member commits a breach contemplated under any provision of the Application for Membership, that Member is subject to the penalties provided for in respect of such provisions. Said penalties shall not be imposed against such Non-Conforming Member until a hearing is held pursuant to Subsection A-502(3).
- (3) The Non-Conforming Member shall have 10 days after the delivery of a statement under Subsection 502(1) to file a written answer thereto. The answer shall admit or deny each allegation contained in the statement of charges and may also contain any defence which the Non-Conforming Member wishes to submit. The Board shall schedule a hearing as soon as reasonably practicable. The Non-Conforming Member shall be given not less than 10 days' advance notice of the place and time of such hearing. The notice of hearing shall contain a statement of the date, time and place of the hearing; a reference to the authority under which the hearing is being held; and the facts alleged and intended to be relied upon by the Corporation and the conclusions drawn by the Corporation based on the alleged facts. At the hearing, the Non-Conforming Member shall be afforded the opportunity to be heard and may be represented by counsel. A Non-Conforming Member shall be deemed to have waived its right to contest the imposition of any sanctions and/or fines and/or penalties if it fails to file a defence and shall be deemed to have accepted any allegations and/or fines and/or penalties contained in the statement of charges which are not denied. As soon as practicable after the conclusion of the hearing, the Board shall furnish the Non-Conforming Member with a written statement of its decision, which shall be final, conclusive and binding on the Non-Conforming Member.

- (4) Any action required to be taken under this Rule A-5 by the Board may be delegated to a committee (the “Disciplinary Committee”), which shall consist of not less than three directors and may include such officers as the Board may delegate. In the event an action is taken by the Disciplinary Committee, the Board shall be advised and such action may be reviewed by the Board, either upon its own motion made at or before its next regular meeting or upon a motion filed by any person directly affected within seven days after the Disciplinary Committee has rendered its final decision. The Board may, in its sole discretion, afford the Non-Conforming Member a further opportunity to be heard or to present evidence. As stipulated in the By-laws of the Corporation, a majority of the members of the Discipline Committee shall be Resident Canadians.
- (5) Any time limit set forth in this Section may be extended by the Board, the Disciplinary Committee, or by any officer acting pursuant to authorization of the Board.
- (6) Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any Non-Conforming Member, who has been the subject of disciplinary action pursuant hereto to avail himself of any right of appeal which is provided to such Non-Conforming Member by applicable law.

Section A-503 Discipline by Exchanges

Nothing in this Rule A-5 shall affect the right of any Exchange to discipline its members pursuant to the provisions of the by-laws, rules, directions or orders of such Exchange for a violation of the by-laws, rules, orders or directions of such Exchange, or its application for membership.

RULE A-6 CLEARING FUND DEPOSITS

Section A-601 Clearing Fund Maintenance and Purpose

- (1) The Corporation shall establish a Clearing Fund relating to all Transactions cleared by the Corporation. Each Clearing Member admitted to clear Transactions at the Corporation shall maintain a deposit in the Clearing Fund of the amounts from time to time required by the Rules. The Clearing Fund shall be used for the purposes set out in Section A-609 and Subsection A-701(2).
- (2) The Clearing Fund base deposits are as follows:
 - (a) Options Clearing Base Deposit - \$25,000 MoneyCash or equivalent value (as set out in Section A-608) of ~~Government Securities acceptable to the Corporation and with less than 1 year to maturity.~~ Acceptable Treasury Bills.
 - (b) Futures Clearing Base Deposit - \$75,000 MoneyCash or equivalent value (as set out in Section A-608) of ~~Government Securities acceptable to the Corporation and with less than 1 year to maturity.~~ Acceptable Treasury Bills.
 - (c) OTCI Clearing Base Deposit (other than Fixed Income Transactions) - \$100,000 MoneyCash or equivalent value (as set out in Section A-608) of ~~Government Securities acceptable to the Corporation and with less than 1 year to maturity.~~ Acceptable Treasury Bills.
 - (d) Fixed Income Transactions Clearing Base Deposit - \$1,000,000 MoneyCash or equivalent value (as set out in Section A-608) of ~~Government Securities acceptable to the Corporation and with less than 1 year to maturity.~~ Acceptable Treasury Bills.

Section A-602 Amount of Clearing Funds

The aggregate amount of the Clearing Funds to be deposited by all Clearing Members at the close of each calendar month shall be equivalent to the Uncovered Residual Risk. The amount of the Clearing Funds to be deposited by each Clearing Member shall be calculated according to Section A-603.

Section A-603 Amount of Deposit

- (1) The required deposit of each Clearing Member to the Clearing Fund shall be an amount equal to the total of:
 - (a) an Options Clearing Base Deposit, if the Clearing Member has been accepted to clear Options;
 - (b) a Futures Clearing Base Deposit, if the Clearing Member has been accepted to clear Futures;

- (c) an OTCI Clearing Base Deposit, if the Clearing Member has been accepted to clear OTCI transactions other than Fixed Income Transactions;
 - (d) a Fixed Income Transactions Clearing Base Deposit, if the Clearing Member has been accepted to clear Fixed Income Transactions; and
 - (e) a Variable Deposit equal to the amount by which (i) the Clearing Member's contribution to the Corporation's ~~Total~~ Uncovered Residual Risk exceeds (ii) such Clearing Member's Base Deposits.
- (2) Each Clearing Member's contribution shall be determined by imposing a market-driven stress test on their portfolio ~~and calculating against~~ the Uncovered Residual Risk. ~~The total amount of, in accordance with the Clearing Fund is equal to the maximum average Uncovered Residual methodology set forth in the Risk over the last 60 Business Day period. Each Clearing Member's contribution to the Clearing Fund is determined according to the relative weight of the average Uncovered Residual Risk attributable to all its positions over that period in relation to the sum of Uncovered Residual Risk of all Clearing Members for that period.~~
- ~~(3) During the first 60 Business Days of membership, the Uncovered Residual Risk will be pro-rated by the number of days in the month that the clearing membership was effective. The average margin requirement over the number of days that the clearing membership was effective will be used Manual.~~

Section A-604 Changes in Requirement

The required amount of Base and Variable Deposits made by Clearing Members may be altered from time to time by the Corporation as a result of an amendment to the Rules. If the deposit to the Clearing Fund to be made by a Clearing Member is thereby increased ~~as a result of an amendment to the Rules~~, the increase shall not become effective until the Clearing Member is given 3 Business Days prior written notice of such amendment. Unless a Clearing Member notifies the Corporation in writing that it wishes to terminate its membership and closes out or transfers all of its aggregate positions in the relevant instrument before the effective date of such amendment, such Clearing Member shall be liable to make the increased deposit whenever it is required of all Clearing Members.

Section A-605 Clearing Fund Statement

~~Within 10 days after~~ At the close opening of business on the first Business Day of each calendar month, the Corporation shall issue to each Clearing Member a Clearing Fund statement that shall list the current amount of such Clearing Member's deposit to the Clearing Fund and the amount of deposit required of such Clearing Member on the basis of the preceding 60 days' Uncovered Residual Risk amount (from the close of the previous calendar month). Any surplus over and above the amount required or any deficit to be satisfied will also be shown.

Section A-606 Additional Clearing Fund Deposit

Whenever a Clearing Member's Clearing Fund statement shows a deficit, such Clearing Member shall satisfy the deficit by a deposit in a form approved by the Corporation within 3 no later than 2:00 p.m. on the Business Days of the date of Day following the issuance of ~~such a the~~ Clearing Fund statement.

Section A-607 Withdrawals

In the event that the Clearing Fund statement of the Clearing Member shows a surplus, a Clearing Member may request the withdrawal of such surplus by submitting a withdrawal request in the form and delay prescribed by the Corporation.

Section A-608 Form of Deposits

- (1) ~~Other than deposits~~In addition to Base Deposits made pursuant to the requirements of Subsection A-601(2) ~~for Clearing Fund Base), Variable Deposits, deposits~~ to the Clearing Fund shall also be in ~~cash the form of Cash and/or in such Government Securities acceptable to the Corporation, which are freely negotiable and~~Acceptable Treasury Bills which shall be valued at a discounted rate, as determined by the Corporation from time to time in accordance with the ~~Operations methodology set forth in the Risk~~ Manual, of their market value; if no market value is generally available for such Government Securities, they shall be valued at an amount determined by the Corporation. Substitutions may be made with the prior approval of the Corporation. Deposits in ~~cash~~Cash shall not be used by the Corporation as working capital but any interest or gain received or accrued on the investment of such funds shall belong to the Corporation.
- (2) The Clearing Fund deposit shall be deemed to be deposited with the Corporation at the time the Corporation accepts the ~~cash, Government Securities Cash and/or an Approved Depository's Safe Custody Receipt for such deposit.~~Acceptable Treasury Bills. All interest or gain received or accrued on any ~~Government Securities~~Acceptable Treasury Bills, prior to any sale, negotiation or pledge thereof, shall belong to the depositing Clearing Member.
- ~~(3) Government Securities deposited by the Clearing Member with an Approved Depository shall be deposited under arrangements:~~
 - ~~(a) permitting the Government Securities to be promptly sold by or upon the order of the Corporation for the account of the Clearing Member without notice; and~~
 - ~~(b) requiring the Clearing Member to pay all fees and expenses incidental to the ownership or sale of such Government securities or the arrangement with the Depository.~~

Section A-609 Application of Clearing Fund

- (1) The Corporation shall apply the Non-Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), or, when the Corporation deems necessary, the Clearing Fund deposits of other Clearing Members in accordance with Subsection A-609(2), as set out in Subsection A-701(2) ~~s) and in accordance with the methodology set forth in the Risk Manual.~~
- (2) If the amount of the undischarged obligation, payment, loss or expense exceeds the total value of the Non Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), and if the Clearing Member fails to pay the Corporation the amount of the deficiency on demand, the amount of the deficiency shall be paid out of the Clearing Fund and charged pro rata, based on the size of each of the other Clearing Members' Clearing Fund deposits at that time, against all other Clearing Members' Clearing Fund deposits, subject to and in accordance with the methodology set forth in the Risk Manual. Notwithstanding such pro rata charges made against each of the other Clearing Members, the Non-Conforming Member who failed to pay the deficiency shall remain liable to the Corporation for the full amount of such deficiency until repayment thereof.;

- (3) Whenever any pro rata charges are made against Clearing Members' deposits to the Clearing Fund, the Corporation shall promptly notify all Clearing Members of the amount of the charge and the reasons therefor. For the purposes of this Section A-609, the amount of any loss sustained by the Corporation shall be determined without reference to the possibility of any subsequent recovery in respect thereof, through insolvency proceedings or otherwise, but the net amount of any such recovery shall be applied in accordance with Section A-612.

Section A-610 Making Good on Charges to Clearing Fund

Whenever an amount is paid out of the Clearing Fund ~~deposit~~deposits of ~~a~~other Clearing Member, ~~whether by pro rata charge or otherwise, in accordance with Subsection A-609(2), such Clearing Member~~Members shall be liable ~~promptly~~ to make good the deficiency if any in ~~its deposit~~their deposits resulting from such payment ~~no later than 2:00 p.m. on the Business Day following the date that the amount is paid out.~~ Notwithstanding the foregoing, ~~if the payment is made as a result of a pro rata charge, a~~ Clearing Member~~Members~~ will not be liable to make good more than an additional 100% of the amount of ~~its Base Deposit and Variable Deposits to the~~their Clearing Fund ~~deposits~~ then prescribed by the Rules with respect to the default of any one Clearing Member, ~~if:~~

- ~~(i) within 3 Business Days following the pro rata charge, the Clearing Member notifies the Corporation that it is terminating its membership;~~
- ~~(ii) no Opening Purchase Transaction or Opening Writing Transaction is submitted for clearance through any of the Clearing Member's accounts after the giving of such notice; and~~
- ~~(iii) the Clearing Member closes out or transfers all of its Open Positions as promptly as practicable after the giving of such notice.~~

Section A-611 Deposit Refund

- (1) Whenever a Clearing Member ceases to be a Clearing Member with respect to all Transactions covered by the Clearing Fund, the amount of its ~~Base Deposit~~Clearing Fund deposit, relating to the Transactions no longer being cleared, ~~to the Clearing Fund~~ shall be returned, subject to the time limit specified in ~~this Section~~Subsection A-611(2), but not until all Transactions of the Clearing Member from which losses or payments chargeable to the Clearing Fund might result have been fulfilled or closed, or with the approval of the Corporation, another Clearing Member has been substituted thereon. All amounts chargeable against a Clearing Member's deposit in the Clearing Fund on account of ~~transactions~~Transactions effected whilst a Clearing Member, including pro-rata charges, shall be deducted from the amount to be returned.
- (2) Thirty days after all outstanding items have been eliminated from the Clearing Member's accounts with the Corporation the balance of the Clearing Fund ~~deposit~~ owed to the former Clearing Member will be paid to that former member.

Section A-612 Recovery of Loss

- (1) If a loss charged pro-rata against the ~~deposit~~deposits of Clearing Members in the Clearing Fund is afterward recovered by the Corporation from the Clearing Member whose failure to pay led to the loss being charged, in whole or in part, the net amount of such recovery shall be paid or credited to

the Clearing Members against whose deposit the loss was charged in proportion to the amount charged against their respective deposits, whether or not they are still Clearing Members.

- (2) Any Clearing Member that has had a loss charged against its deposit under Section A-609(2) or Section A-610, shall have the right to claim from the Clearing Member whose failure to pay a deficiency led to the loss being charged and the Clearing Member shall be obligated to reimburse such other Clearing Member, the amount so charged against the Clearing Member's deposit.

Section A-613 Approved Depositories

- ~~(1) Prior to approving a financial institution, as hereinafter defined, as a depository for the safe custody of Securities, certificates, Underlying Interest and Underlying Interest Equivalent, the institution shall have agreed with the Corporation that it will meet the conditions prescribed by the Corporation for an Approved Depository.~~
- ~~(2) Clearing Members may enter into a safe custody agreement, in a form approved by the Corporation, with an Approved Depository for the safekeeping of Securities, certificates, Underlying Interest and Underlying Interest Equivalent.~~
- ~~(3) Approved Depositories will issue Safe Custody Receipts, Escrow Receipts and Futures Margin Receipts in a form approved by the Corporation.~~
- ~~(4) The following financial institutions may apply for recognition as an Approved Depository:~~
- ~~(a) a bank to which the *Bank Act* (Canada) applies, which has a minimum paid-up capital and surplus of \$25,000,000 and for which current audited financial statements are available;~~
 - ~~(b) a trust company which is subject to legislation of Canada or of any province of Canada similar to the *Loan and Trust Corporations Act* (Ontario) or *An Act Respecting Trust Companies and Savings Companies* (Quebec) which has minimum paid-up capital and surplus of \$25,000,000 and for which current audited financial statements are available;~~
 - ~~(c) the Corporation and any subsidiary of the Corporation;~~
 - ~~(d) securities depositories;~~
 - ~~(e) such other institution as the Board may, in its sole discretion, approve from time to time, provided that in no case shall approval be given to an institution having less than \$25,000,000 paid-up capital and surplus, which does not have the required power under its charter or other constituting documents to act as a fiduciary or for which current audited financial statements are not available.~~

RULE A-7 MARGIN REQUIREMENTS

Section A-701 Margin Maintenance and Purpose

- (1) Prior to the Settlement Time on every Business Day, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation, in respect of
 - (a) each Long Position,
 - (b) each Short Position,
 - (c) each Assigned Position,
 - (d) each exercised Option position, and
 - (e) each tendered Futures position.

in each account maintained by such Clearing Member with the Corporation at the opening of such Business Day, including each such position that arises out of a Transaction having a Settlement Time on such Business Day, but excluding ~~Options~~ Short Positions and Assigned Positions for which either the ~~underlying~~ Underlying Interest or the Underlying Interest Equivalent as specified in Section A-708 has been deposited with the Corporation. When determining whether additional Margin is required from a Clearing Member, the Corporation shall take into account, subject to Subsection A-704(2), all Margin Deposits deposited by or on behalf of such Clearing Member with the Corporation (and not returned to such Clearing Member).

- (2) The Corporation shall apply the Non-Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), subject to Subsection A-701(3), to the discharge of:
 - (a) the Non-Conforming Member's obligation with respect to any Transaction accepted by the Corporation, whether such failure is caused or not by the Non-Conforming Member;
 - (b) a failure or anticipated failure to make any payment to the Corporation required of a Non-Conforming Member, whether such failure is attributable to the Non-Conforming Member or not;
 - (c) any loss or expense anticipated or suffered by the Corporation upon the liquidation of the Non-Conforming Member's position;
 - (d) any loss or expense anticipated or suffered by the Corporation pertaining to the Non-Conforming Member's obligations in respect of exercised Options or tendered Futures or OTCI for which settlement has not yet been made or in connection with hedging transactions effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Member's positions in Options, Futures and OTCI;
 - (e) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Clearing Member's positions in Options and Futures;

- (f) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Clearing Member's positions in any OTCI; or
- (g) any other situation determined by the Board.

(3) Each Clearing Member grants to and in favour of the Corporation a first ranking pledge of, lien on and security interest and hypothec in, all property including, without limitation, property deposited as Margin Deposit (including, without limitation, Margin and Clearing Fund) deposited by the Clearing Member with the Corporation or which may, from time to time be in the possession or control of the Corporation, or in the possession or control of a person acting on behalf of the Corporation, to secure the performance by the Clearing Member of all of its obligations to the Corporation, provided, however, that Margin Deposits with respect to a Client Account shall only secure the performance by the Clearing Member of its obligations in respect of that Client Account, and Margin Deposits with respect to a Market Maker Account shall only secure the performance by the Clearing Member of its obligations in respect of that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation shall use all Margin Deposits without distinction as securing all the obligations of the Clearing Member in respect of all its accounts. The Clearing Member shall execute and deliver to the Corporation such other documents as the Corporation may from time to time request for the purpose of confirming or perfecting the pledge, lien, security interest and hypothec provided to the Corporation by the Clearing Member; provided that the failure by the Corporation to request or by the Clearing Member to execute and deliver such documents shall not limit the effectiveness of the foregoing sentence.

(4) Without limiting the rights of the parties under Subsection A-701(2) and Section A-704, at the sole discretion of the Corporation, all property deposited with the Corporation as Margin Deposit (including, without limitation, Margin and Clearing Fund) by the Clearing Member may be pledged, repledged, hypothecated, rehypothecated or transferred by the Corporation as security for, or in connection with, the Corporation's own obligations to any person. The Corporation shall be deemed to continue to hold all Margin Deposit deposited with the Corporation, regardless of whether the Corporation has exercised its rights under this Subsection 701(4).

Section A-702 Discretionary Margin Rule

The amount of Margin which a Clearing Member may otherwise be required to deposit with the Corporation pursuant to this Rule A-7 may be varied by the Corporation at any time and from time to time without advance notice whenever the Corporation, in its sole discretion, considers such variation necessary or advisable for the protection of the Corporation, Clearing Members or the investing public.

Section A-703 Daily Margin Activity Report

- (1) Each Business Day, the Corporation shall issue to each Clearing Member for each account maintained by the Clearing Member with the Corporation a report ("Daily Margin Activity Report") which shall show the amount of Margin required to be deposited with the Corporation by virtue of the Clearing Member's positions. All Margin requirements shall be satisfied by Settlement Time on each Business Day notwithstanding any error in such report.
- (2) If for any reason the Daily Margin Activity Report is not available to a Clearing Member, it shall be the responsibility of that Clearing Member to ascertain from the Corporation the amount of Margin required to be deposited with the Corporation, so that the Margin requirements are met before Settlement Time each Business Day.

Section A-704 Withdrawals of Margin

- (1) Subject to Subsection A-704(2), in the event that on any particular day the amount of a Clearing Member's Margin on deposit exceeds the amount required to be deposited by such Clearing Member on such day pursuant to this Rule A-7, as shown by a report ("Deposits/Withdrawals Report") for such day, the Corporation shall authorize the withdrawal of the amount of the excess upon the submission to the Corporation, by such Clearing Member during the hours specified by the Corporation, of a withdrawal request in the form prescribed by the Corporation provided that the Clearing Member shall provide the Corporation with sufficient prior notice of such withdrawal request as set out in the Operations Manual.
- (2) If a Clearing Member has excess Margin deposited in respect of any Firm Account, the Corporation shall be entitled to apply such excess (or a portion thereof) as is necessary to meet the Margin requirements in respect of a Client Account or Market Maker Account. If a Clearing Member has excess Margin deposited in respect of any Client Account or any Market Maker Account, the Clearing Member shall not be entitled to apply such excess (or a portion thereof) to meet the Margin requirements in respect of a Firm Account; provided, however, that if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation shall apply the Margin deposited by a Clearing Member indistinctively to meet the Margin requirements in respect of all its accounts.

Section A-705 Intra-Day Margin Calls

- (1) The Corporation may require the deposit of supplementary Margin by any Clearing Member in any account at any time during any Business Day which the Corporation, in its sole discretion, considers necessary or advisable to reflect changes during such day in the Market Price of any Underlying Interest, or changes in the financial position of the Clearing Member or to protect the Corporation, Clearing Members or the public.
- (2) Subject to Subsection A-704(2), if a Clearing Member has excess Margin on deposit with the Corporation, the Corporation shall be entitled, upon determining that supplementary Margin is required, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Margin requirements. The Corporation shall notify the Clearing Member as soon as practicable of such application. If there is no excess Margin then on deposit, the Corporation will notify the Clearing Member of the amount of supplementary Margin required. Such supplementary Margin shall be deemed to be owing upon a Clearing Member receiving notice thereof and shall be deposited by the Clearing Member within one hour of the Clearing Member receiving such notice, or such longer time as may be permitted by the Corporation. Credit for all such supplementary Margin deposits, shall be reflected on ~~a report~~ ("the Daily Settlement Summary") Report on the following Business Day.

Section A-706 Margin Calculations

The Corporation uses SPAN® for its risk-based Margin system which analyzes Options and Futures positions in each account of each Clearing Member. The system projects a liquidating value for each such account and collects sufficient Margin to cover the Corporation's projected costs in the event that such a liquidation should be required. Offsetting positions are considered and, where determined prudent, the Corporation may reduce its Margin requirements.

The Corporation uses a proprietary margining system for the purposes of margining any OTCI transactions presented to the Corporation for clearing. The components of margin for all OTCI transactions are as follows:

- (a) Outstanding settlement amounts not yet paid;
- (b) Mark-to-Market Valuation from current Open Positions within each account; and
- (c) A worst-case liquidating value for each account.

Margin off-sets are considered in the margining process and where determined prudent, the Corporation may reduce the Margin Requirements for specific accounts.

The Corporation provides Clearing Members with information on the calculation of Margins on request.

Section A-707 Margin on Options Spread Positions Carried in Client Accounts

- (1) Where a Clearing Member maintains an Options Spread Position in its Client Account, the Clearing Member may inform the Corporation of this fact with a view to reducing the Margin required on the positions held in that account by filing a report (“Options Spread Position Report”) with the Corporation.
- (2) Each Clearing Member shall maintain a record of each Spread Position held for in its Client Account identifying the client, the Client Account in which the Spread Position is held, and the specified Long Positions and Short Positions making up the Spread Position.
- (3) Prior to the time established by the Corporation, on every Business Day, each Clearing Member shall inform the Corporation, in the form prescribed, of the quantity and composition of any additions to or deletions from the Spread Positions carried for individual clients.
- (4) No Clearing Member shall inform the Corporation of a Spread Position or permit a Spread Position to remain recorded by the Corporation unless the Clearing Member is simultaneously carrying in the relevant Client Account Long and Short Positions for an equal number of Options of the same Class of Options and the margin required to be deposited by such client in respect of such positions has been reduced accordingly. The filing by a Clearing Member of an Options Spread Position Report shall constitute the certification by the Clearing Member to the Corporation that such filing is authorized, is in accordance with the foregoing and is in compliance with all applicable laws and regulations.
- (5) If a Client Account with the Corporation has Spread Positions for a Series of Options in respect of which the Corporation has been notified and the total Long Position in such Series of Options is reduced by the filing of an Exercise Notice or the execution of a closing transaction in such account, such reduction shall also be applied by the Corporation against the Spread Position in such account. If the Clearing Member wishes such reduction to be applied in a different manner, it shall so instruct the Corporation by filing an appropriate spread instruction.

Section A-708 Underlying Interest and Underlying Interest Equivalent

Clearing Members shall NOT be required to deposit Margin in respect of ~~short positions~~**Short Positions** in Futures or Options for which they have deposited the Underlying Interest or Underlying Interest Equivalent as herein defined.

- (1) For **CALL OPTIONS** the Underlying Interest or Underlying Interest Equivalent shall mean:

(a) Equity Options –

(i) the underlying Security or any Security exchangeable or convertible without restriction, other than the payment of MoneyCash, into the underlying Security shall be acceptable, provided that neither the Security nor the right to exchange or convert lapses throughout the life of the Option. Where the payment of money is a condition of conversion such MoneyCash shall be deposited with the Corporation at the same time as the convertible Security. This provision applies to warrants, rights, and convertible Securities.

~~In case of a stock split, a Clearing Member may make a deposit hereunder by depositing certificates representing the underlying Security and by filing with the Corporation a letter of undertaking executed by the Clearing Member in the form prescribed by the Corporation. Each deposit shall be deemed only to occur and continue so long as both the certificates are on deposit and the letter of undertaking duly executed, complete and unexpired is filed with the Corporation.~~

~~(ii) a Call Underlying Interest Deposit issued by an Approved Depository in favour of the Corporation.~~

(b) Bond Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:

(i) are the underlying bond; or

(ii) have been determined by the Corporation as acceptable on the basis that they:

~~INTERPRETATION AND POLICY~~

~~A list of acceptable bonds will be published from time to time. Acceptable bonds for Margin against a series of bond Options will normally be bonds which:~~

~~(i) _____ have higher coupon rates;~~

~~(ii) _____ have an aggregate face value at maturity of at least \$1,000,000,000;~~

~~(iii) _____ trade at a premium of \$5 greater than the underlying bond; and~~

~~(iv) _____ mature no sooner than 2 years prior to the underlying bond.~~

(c) Silver Options – silver certificates issued by organizations acceptable to the Corporation.

(d) Cash Settlement Options

(i) Government Securities as specified in Section A-709 equal in value to the aggregate current value (which for the purposes of this Section have the meaning

attributed thereto in Section B-1001 as the context requires) of the Option at the close of trading on the Business Day prior to the deposit.

- (ii) If the value of the government Securities deposited for each contract falls below the value of the aggregate current value on any Business Day the Corporation may call for an additional deposit or Margin.
 - (e) Options on short term money-market instruments expiring in one year or less
The Underlying Interest or any other instrument acceptable to the Corporation.
 - (f) Futures Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:
 - (i) are the underlying bond; or
 - (ii) have been determined by the Corporation as acceptable.
 - (g) Gold Options – gold certificates issued by organizations acceptable to the Corporation.
- (2) For **PUT OPTIONS** Underlying Interest and Underlying Interest Equivalent shall mean:

- (a) Cash;
- ~~(b) Government Securities as specified deposited at the Corporation in Section A-709, or the amount of the relevant Exercise Price.~~
- ~~(c) Puts Guaranty Letter – a guaranty letter in the form approved by the Corporation, issued by an Approved Depository which states that it is being deposited to serve as Margin for puts positions in a Client Account and that such guaranty letter shall not constitute Margin for any other account maintained by the Clearing Member.~~

~~INTERPRETATION AND POLICY~~

~~The Corporation will only accept a puts guaranty letter from a bank and trust company which is an Approved Depository and which meets the Bourse de Montréal Inc.’s requirements of an “Acceptable Institution” or “Acceptable Counterparty” as from time to time amended.~~

~~With respect to **FUTURES** the Clearing Member may deposit any Underlying Interest or Underlying Interest Equivalent which would be considered good delivery on the corresponding Futures contracts. (b) a Put Escrow Receipt issued by an Approved Depository in favour of the Corporation.~~

~~(3) For **FUTURES** Underlying Interest and Underlying Interest Equivalent shall mean:~~

- ~~(a) any Underlying Interest which would be considered to be in Good Deliverable Form on the corresponding Futures contracts.~~

(b) a Futures Underlying Interest Deposit issued by an Approved Depository in favour of the Corporation.

For cash settlement Futures, the Corporation may impose from time to time at its sole discretion ~~margin~~ Margin requirements on the Underlying Interest or Underlying Interest Equivalent as determined by the Corporation.

~~For FUTURES, the Underlying Interest or Underlying Interest Equivalent shall mean the physical Underlying Interest or Underlying Interest Equivalent which has been determined acceptable by the Corporation.~~

Section A-709 Forms of Margin

Required Margin may be deposited with the Corporation, subject to Section A-212, in one or more of the following forms:

- (1) **Cash** - Clearing Members may deposit ~~cash~~ Cash by way of an irrevocable funds transfer, ~~a certified cheque or bank draft drawn on a bank acceptable to the Corporation and payable~~ to the Corporation or such other funds as may be acceptable to the Corporation. Funds so deposited may, from time to time, be partially or wholly invested by the Corporation for its account and, to the extent not so invested, shall be deposited to the credit of the Corporation in such financial institutions as the Board may select. Any interest or gain received or accrued on the investment of such funds shall belong to the Corporation. Subject to Subsection A-701(4), such funds shall not be used by the Corporation as working capital.
- (2) **Government Securities** – Clearing Members may deposit, as hereinafter provided, Acceptable Treasury Bills and such other government Securities as may be specified by the Corporation, which are freely negotiable and which shall be valued at a discounted rate to their market value, as determined by the Corporation from time to time in accordance with the Operations methodology set forth in the Risk Manual ~~for government Securities~~. Such valuation rate shall be applied to the Market Value of the relevant Securities. “Market ~~value~~ Value” as used in this Subsection A-709(2) shall be determined on the close of each Business Day by the Corporation through reference to one or more data supply services retained by the Corporation for such purpose. If a market value is required to be determined on a non-Business Day, and the data supply service does not provide a market value for such day, the market value on the immediately preceding Business Day shall be used. If no market value is generally available for any government Securities accepted by the Corporation as a form of Margin, such Securities shall be valued at an amount determined by the Corporation.

The government ~~securities~~ Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the government Securities as Margin ~~or an Approved Depository's Safe Custody Receipt or Futures Margin Receipt in respect of such government Securities~~. All interest or gain received or accrued on such government Securities prior to any sale or negotiation thereof shall belong to the depositing Clearing Member and such interest will be paid to such depositing Clearing Member by the relevant issuer.

~~Government Securities deposited by the Clearing Member with an Approved Depository shall be deposited under arrangements:~~

- ~~(a) permitting the government Securities to be promptly sold by or upon the order of the Corporation for the account of the Clearing Member without notice; and~~
- ~~(b) requiring the Clearing Member to pay all fees and expenses incidental to the ownership or sale of such government securities or the arrangement with the Approved Depository.~~

For each Clearing Member, at least two thirds of the total Margin required against all of its accounts combined must be covered by Cash, Acceptable Treasury Bills or any combination thereof.

(3) Valued Securities

- (a) In addition to the Underlying Interest and Underlying Interest Equivalent which may be deposited under Section A-708, Clearing Members may deposit any Security listed on ~~any~~ duly recognized Canadian Exchange (such Security, a “Valued Security”), against their total Margin requirements. This Margin shall be deemed to be deposited with the Corporation at the time the Corporation ~~either accepts the Securities, accepts a Safe Custody Receipt issued in respect of the Securities by an Approved Depository or accepts notification from an Approved Depository of a position in the security segregated to the order of the Corporation.~~
- (b) No value will be given for any Valued Security on any one day when the closing price thereof or, if there was no trading in such Valued Security on such day on any applicable Exchange, the previous closing price is less than \$10 on any applicable Exchange.
- (c) Valued Securities so deposited will be marked-to-the-market daily and 50% of this daily value applied against the total Margin required against all accounts combined.
- (d) No more than 10% of the total Margin required against all accounts combined may be covered by any one Valued Security.
- (e) For each Clearing Member, no more than 15% of the total Margin required against all of its accounts combined may be covered by Valued Securities.
- (f) No value will be given for any Valued Securities deposited by a Clearing Member if such Valued Securities are issued by an Affiliate of such Clearing Member.

- (4) Other Forms of Margin Deposit** - The Corporation may from time to time accept other forms of Margin deposit as determined in its sole discretion. The Corporation may alter any such accepted form of deposit and may at any time cease accepting any alternative form of deposit previously accepted by it. Where a previously accepted form of deposit is determined to be no longer acceptable by the Corporation, it shall notify all Clearing Members who shall promptly replace all such unacceptable forms of deposit with forms of deposit acceptable to the Corporation.

Section A-710 Daily Capital Margin Monitoring Calls

The Corporation will monitor the Margin requirement of a Clearing Member as a percentage of its capital. In the event that this ratio exceeds 100%, ~~an~~ additional margin in the amount of the excess over the ratio of 100% will be collected from the Clearing Member in the form of acceptable Margin in accordance with Section A-709.

RULE A-8 DAILY SETTLEMENT

Section A-801 Daily Settlement Summary

- (1) Each Business Day the Corporation shall issue to each Clearing Member ~~a report (“the Daily Settlement Summary”)~~ Report which will summarize:
- (a) the debit and credit premium for each account as shown on Consolidated Activity Reports;
 - (b) the net gains and losses for each account as shown on Consolidated Activity Reports;
 - (c) the net settlement for Exercised and Assigned Positions of cash settled Options;
 - (d) the net payment for Settlement Amounts resulting from OTCI;
 - (e) the debit or credit determined as necessary by the Corporation resulting from any adjustment reported by the Clearing Member;
 - (f) the net Margin required for each account as shown on a report (“Daily Margin Activity Report”);
 - (g) the total Margin deposits held by the Corporation; and
 - (h) the net amount due to or from the Corporation.
- (2) For greater certainty, subject to any Rule which expressly prohibits netting, on each Business Day ~~as of the applicable Netting Cut Off Time;~~
- (a) the Corporation shall have the right to net all payments owing to a Clearing Member on such Business Day, other than payments owing to a Clearing Member which are settled through a Central Securities Depository, against all payments owing by a Clearing Member on such Business Day, other than payments owing by a Clearing Member which are settled through a Central Securities Depository, such that one net amount shall be payable to or from such Clearing Member by the Settlement Time;
 - (b) subject to Subsection ~~D-606(10)~~ A-704(2), the Corporation shall have the right to net ~~all payments~~ Margin requirements owing ~~to by~~ a Clearing Member in respect of one product on such Business ~~Day~~ Day against excess Margin delivered by such Clearing Member and available in respect of another product on such Business Day such that Margin in one net amount is required to be delivered by the Clearing Member on such Business Day or one net amount is available for withdrawal by such Clearing Member on such Business Day under Section A-704.
 - (c) in respect of the delivery versus payment settlement of Acceptable Securities (other than a stock or other equity security which are settled is an Underlying Interest of an Exchange traded Option or of an OTCI that is an Option) through a Central Securities Depository, subject to Subsection D-606(10), the Corporation shall have the right to net all payments owing to a Clearing Member on such Business Day, including without limitation, any due and payable Postponed Payment Obligation, against all payments owing by a Clearing Member on such Business Day which are settled through that same Central Securities

Depository, including without limitation, any due and payable Postponed Payment Obligation, such that one Net Payment Against Delivery Requirement shall be payable to or from such Clearing Member for settlement at such Central Securities Depository by the End of Day DVP Settlement Time;

~~(e)~~ d)in respect of the delivery versus payment settlement of Acceptable Securities (other than a stock or other settlement obligations for the same CUSIP/ISIN number for an Acceptable Security owing to a Clearing Member on such Business Day, including without limitation, any Rolling Delivery Obligation in respect of such Acceptable Security, against all settlement obligations for such Acceptable Security owing by a Clearing Member on such Business Day, including without limitation, any Rolling Delivery Obligation in respect of such Acceptable Security, such that one Net Delivery Requirement in respect of such Acceptable Security is owing to or from such Clearing Member by the End of Day DVP Settlement Time;

~~(d)~~ subject to Subsection A-704(2), the Corporation shall have the right to net Margin requirements owing by a Clearing Member in respect of one product on such Business Day against excess Margin delivered by such Clearing Member and available in respect of another product on such Business Day such that Margin in one net amount is required to be delivered by the Clearing Member on such Business Day or one net amount is available for withdrawal by such Clearing Member on such Business Day under Section A-704.

~~(3)~~ Notwithstanding Paragraph A-801(2)(c), as of the Morning Netting Cycle Timeframe on each Business Day, the Corporation shall net all Pending Payment Against Delivery Requirements owing to a Clearing Member against all Pending Payment Against Delivery Requirements owing by a Clearing Member, such that one Morning Net Payment Against Delivery Requirement shall be payable to or from such Clearing Member at the Morning Net DVP Settlement Timeframe; provided, however, that if the Morning Net Payment Against Delivery Requirement payable from a Clearing Member exceeds the amount of the CDCC Daylight Credit Facility, such Clearing Member shall be required to have available funds in its cash account at the Central Securities Depository in the amount of the CDCC Daylight Credit Facility only.

~~(4)~~ Notwithstanding Paragraphs A-801(2)(c) and A-801(2)(d), as of the Afternoon Netting Cycle Timeframe on each Business Day, the Corporation shall (i) net all Pending Delivery Requirements owing to a Clearing Member against all Pending Delivery Requirements owing by a Clearing Member with respect to each Acceptable Security, such that one Afternoon Net DVP Settlement Requirement in respect of such Acceptable Security shall be deliverable to or from such Clearing Member by the End of Day DVP Settlement Time; and (ii) net all Pending Payment Against Delivery Requirements owing to a Clearing Member against all Pending Payment Against Delivery Requirements owing by a Clearing Member, such that one Afternoon Net DVP Settlement Requirement shall be payable to or from such Clearing Member by the End of Day DVP Settlement Time.

Section A-802 Daily Settlement

(1) On or before Settlement Time on each Business Day, as determined by the Bank of Canada to be a settlement day, each Clearing Member shall be obligated to pay the Corporation, in ~~the Money applicable to the Transaction~~ Cash, by irrevocable funds transfer or any other method as may be approved by the Corporation from time to time, the amount of any Net Daily Settlement in an

account shown to be due to the Corporation on ~~a report (“the Daily Settlement Summary”)~~ Report (notwithstanding any error in such report).

- (2) If for any reason the Daily Settlement Summary Report is not available to the Clearing Member, it shall be the responsibility of that Clearing Member to ascertain from the Corporation the amount of any Net Daily Settlement, so that payment may be made before Settlement Time each Business Day.
- (3) Provided all applicable conditions precedent have been satisfied, one hour after Settlement Time of each Business Day the Corporation shall be obligated to pay a Clearing Member the amount of any Net Daily Settlement in an account shown to be due from the Corporation to such Clearing Member on the Daily Settlement Summary Report for such account for such day. The Corporation may make such payment to the Clearing Member by uncertified cheque or electronic funds transfer in the amount of such Net Daily Settlement.
- (4) When the banks in a city where the Corporation has an office are closed on a Business Day, settlement shall nevertheless occur through the method of irrevocable funds transfer or any other method as may be approved by the Corporation from time to time on such Business Day if it has been determined by the Bank of Canada to be a settlement day.
- (5) If the Corporation does not have sufficient liquidity to pay all the Net Daily Settlements it owes to Clearing Members on a given Business Day, the Corporation shall fail to pay prorata among such Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the affected Clearing Members.

Section A-803 Physical Settlement

Where the Corporation will effect the transfer of Acceptable Securities (other than a stock or other equity security which is an Underlying Interest of an Exchange traded Option or of an OTCI that is an Option) through a Central Securities Depository, the Corporation shall be exclusively responsible for the communication of Net Delivery Requirements ~~and~~, Gross Delivery Requirements and Afternoon Net DVP Settlement Requirements consisting of obligations to deliver Acceptable Securities to such Central Securities Depository and will bear no responsibility for the replacement of the Acceptable Securities in the event that the Clearing Member fails to perform on the physical delivery obligation. The Corporation will, however, bear the responsibility of guaranteeing the Settlement Amounts derived from the physical delivery process up to the time a CSD Confirmation is issued, and, for greater certainty, has no liability in respect of such Settlement Amounts at any time after the issuance of such CSD Confirmation in respect of such Settlement Amounts. A “CSD Confirmation” means in respect of settlement instructions relating to a Net Delivery Requirement ~~or~~, a Gross Delivery Requirement or an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities, as the case may be, a trade confirmation issued by the applicable Central Securities Depository confirming that the applicable Provider of Securities’ securities account with such Central Securities Depository has been debited with Acceptable Securities in accordance with such settlement instructions; and in respect of settlement instructions relating to a Net Payment Against Delivery Requirement ~~or~~, a Gross Payment Against Delivery Requirement, a Morning Net Payment Against Delivery Requirement or an Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against the delivery of Acceptable Securities, as the case may be, a trade confirmation issued by the applicable Central Securities Depository confirming that the applicable Clearing Member’s cash account with such Central Securities Depository has been debited in accordance with such settlement instructions.

Section A-804 Failed and Partial Deliveries

(1) If a Clearing Member who is a Provider of Securities does not deliver Acceptable Securities (other than a stock or other equity security which is an Underlying Interest of an Exchange traded Option or of an OTCI that is an Option) pursuant to a Net Delivery Requirement, an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities or a Gross Delivery Requirement resulting from a Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe as it is required to do under these Rules, or only partially delivers such Acceptable Securities required to be delivered by it pursuant to these Rules, by the End of Day DVP Settlement Time (in ~~either~~ ease all cases, a “Failed Delivery”), the reciprocal payment obligation of the Corporation in favour of that Clearing Member shall be reduced accordingly. For the avoidance of doubt, a Failed Delivery hereunder shall not constitute a breach of the Rules under Paragraph A-1A04(3)(a) or an event otherwise in and of itself constituting a reasonable ground for the Corporation to determine that a Clearing Member is a Non-Conforming Member. The quantity of such Acceptable Securities that has not been delivered shall constitute a Rolling Delivery Obligation of the failing Clearing Member for purposes of calculating the next Business Day’s Net Delivery Requirement under Section A-801(2)(~~ed~~), and the Net Delivery Requirement of each subsequent Business Day, until the quantity of such Acceptable Securities due are delivered in full, at which time the Corporation’s Postponed Payment Obligation shall become due and payable. Notwithstanding the foregoing, a ~~failed or partial delivery~~ Failed Delivery will not be rolled beyond the maturity date of the relevant Acceptable Security. On the maturity date of the relevant Acceptable Security, the Rolling Delivery Obligation of the Provider of Securities will be converted into a cash settlement obligation at the Acceptable Security’s principal value at maturity, which amount shall be netted against the Corporation’s Postponed Payment Obligation. For the avoidance of doubt, the value of any Coupon Income payable with respect to an Acceptable Security that is the object of a Rolling Delivery Obligation and the value of any final Coupon Income payable on the maturity date of the relevant Acceptable Security shall be paid by the Provider of Securities to the Corporation.

(2) As a direct consequence of a Clearing ~~Member failing to deliver~~ Member’s Failed Delivery, the Corporation will fail or partially ~~delivering such Acceptable Securities pursuant to a Net Delivery Requirement, the Corporation will force a failed or partial delivery of~~ deliver for the same quantity of Acceptable Securities *prorata*, in accordance with the Operations Manual, among Clearing Members who are Receivers of Securities with respect to such Acceptable Securities on the relevant Business Day from the Corporation. In the case of a Failed Delivery with respect to a Gross Delivery Requirement, the Corporation will ~~force a failed fail or partial delivery of the~~ partially deliver for the same quantity of Acceptable Securities on the Clearing Member who is the Receiver of Securities with respect to the relevant Same Day Transaction. The reciprocal Net Payment Against Delivery Requirement, Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against the delivery of Acceptable Securities or Gross Payment Against Delivery Requirement, as the case may be, of such Receivers of Securities in favour of the Corporation shall be reduced accordingly and the quantity of such Acceptable Securities that has not been delivered shall constitute a Rolling Delivery Obligation of the Corporation for purposes of calculating next Business Day’s Net Delivery Requirement, and the Net Delivery Requirement of each subsequent Business Day, until the quantity of Acceptable Securities due are delivered in full, at which time the Receiver of Securities’ Postponed Payment Obligation shall become due and payable. Notwithstanding the foregoing, on the maturity date of the relevant Acceptable Security, the Rolling Delivery Obligation of the Corporation will be converted into a cash settlement obligation at the Acceptable Security’s principal value at maturity, which amount shall be netted against the Receiver of Securities’ Postponed Payment Obligation. For the avoidance of doubt, the value of any Coupon Income payable with respect to an Acceptable Security that is the object of a Rolling Delivery Obligation

and the value of any final Coupon Income payable on the maturity date of the relevant Acceptable Security shall be paid by the Corporation to the Receiver of Securities.

(3) Notwithstanding any other provision of this Section A-804, the Corporation ~~in may, on its sole discretion has the right to own initiative, and shall, pursuant to a formal request by a Receiver of Securities affected by a Failed Delivery as set forth in Subsection A-804(2),~~ terminate the daily roll mechanic set out under Subsection A-804(1) and Subsection A-804(2) ~~to and~~ effect a buy-in transaction under Subsection A-804(4) ~~or~~, in addition to the exercise of any other remedies under the Rules.

(4) Upon ~~the exercise termination of its right to terminate~~ the daily roll mechanic set out under Subsection A-804(1) and A-804(2) pursuant to Subsection A-804(3), the Corporation ~~may, in shall satisfy its Net Delivery Requirement, its sole discretion, satisfy its obligation to deliver Acceptable Securities against an Afternoon Net Delivery DVP Settlement Requirement consisting of a payment obligation of the Clearing Member or Gross Delivery Requirement (in all cases, the “Corresponding CDCC Delivery Requirement”)~~, as the case may be, to Receivers of Securities with respect to such Acceptable Securities, notwithstanding any Failed Delivery by any Provider of Securities, by purchasing the missing quantity of such Acceptable Securities on the open market on such terms as the Corporation deems commercially reasonable in the circumstances. The difference between the price paid by the Corporation to purchase the missing quantity on the open market (including associated costs incurred) and the Purchase Price (or Repurchase Price, as the case may be) of the relevant Transaction(s) shall be charged to the Provider of Securities who was responsible for a Failed Delivery of such Acceptable Securities.

(5) If the Corporation is unable to satisfy its ~~Net Corresponding CDCC Delivery Requirement or Gross Delivery Requirement, as to the case may be, to Receivers~~ Receiver(s) of Securities of such Acceptable Securities under Subsection A-804(4) because they are unavailable on the open market or the Corporation determines in its sole discretion, taking into account the size and nature of the Failed Delivery, the market conditions prevailing at the time, the potential market effects of purchasing the missing quantity on the open market and associated costs, and such other circumstances that the Corporation, in its sole discretion, deems relevant, that such buy-in transaction would not be in the best interest of the Corporation, other Clearing Members or the general public, the Corporation will fail to satisfy its ~~Net Corresponding CDCC Delivery Requirement Requirement to such Receiver(s) of Securities and will convert the relevant Failed Delivery into a cash settlement obligation at the Acceptable Security’s fair market value, as determined by the Corporation in a commercially reasonable manner, netted against the Receiver(s) of Securities’ Postponed Payment Obligation. Such cash settlement amount shall be determined by the Corporation within five Business Days of the termination of the daily roll mechanic pursuant to Subsection A-804(3) and shall be immediately credited (or charged, as the case may be) by the Corporation to the relevant Receiver(s) of Security and simultaneously charged (or credited, as the case may be) by the Corporation to the Provider of Securities responsible for such Failed Delivery. Failure by the Provider of Securities responsible for the Failed Delivery, or Gross Delivery Requirement by the relevant Receiver(s) of Securities, as the case may be, to Receivers of Securities of Acceptable Securities, in which case, the corresponding Net Payment Against Delivery Requirement or Gross Payment Against Delivery Requirement, as the case may be, of Receivers of Securities shall be reduced accordingly. Any direct costs (which, for greater certainty, do not include any indirect or consequential loss or damage) incurred by such Receivers of Securities as a result of the Failed Delivery by the Corporation shall be promptly assessed and notified to the Corporation who will promptly reimburse pay such direct costs to such Receivers of Securities and charge them to the Provider of Securities responsible for such Failed Delivery. Failure by the Provider of Securities responsible for the Failed Delivery to reimburse cash settlement amount to~~ the Corporation shall constitute a payment default,

upon which the Corporation may determine that the Clearing Member is a Non-Conforming Member and take such actions and remedies provided under these Rules against such Non-Conforming Member.

Section A-805 Final and Irrevocable Payment

When the settlement of a payment obligation of a Clearing Member or the Corporation is made through an entry to or a payment out of an account as provided in Section A-802 or through an entry to or a payment out of an account as provided in Section A-803, such settlement of the payment obligation of a Clearing Member or the Corporation shall be final and irrevocable.

Section A-806 Failed and Partial Payments Against Delivery

- (1) If a Clearing Member does not have sufficient funds in its cash account at the Central Securities Depository to satisfy its payment against delivery obligation pursuant to Subsection A-801(3), or only partially settles such payment against delivery obligation (in either case, a “Failed Payment Against Delivery”) at the Morning Net DVP Settlement Timeframe, the Corporation shall impose a fine and may determine that the Clearing Member is a Non-Conforming Member, in accordance with Section 6 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.
- (2) If a Clearing Member does not have sufficient funds in its cash account at the Central Securities Depository to satisfy its Afternoon Net DVP Settlement Requirement pursuant to Subsection A-801(4)(ii) or any Gross Payment Against Delivery Requirement by the End of Day DVP Settlement Time or only partially settles such payment against delivery obligation (also, in either case, a Failed Payment Against Delivery), the Clearing Member shall be deemed a Non-Conforming Member in accordance with Section 6 of the Operations Manual and the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.
- (3) If the Corporation does not have sufficient funds in its cash account at the Central Securities Depository to satisfy all its Afternoon Net DVP Settlement Requirements pursuant to Subsection A-801(4)(ii) and all its Gross Payment Against Delivery Requirements in favour of Clearing Members by the End of Day DVP Settlement Time, it shall fail to settle its payment against delivery obligations at the Central Securities Depository *prorata* among such Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the affected Clearing Members.

RULE A-9 ADJUSTMENTS IN CONTRACT TERMS

Section A-901 Application

This Rule A-9 is applicable to Transactions where the Underlying Interest is an equity related product.

Section A-902 Adjustments in Terms

- (1) Whenever there is a dividend, stock dividend, stock distribution, stock split, trust unit split, reverse stock split, reverse trust unit split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any Underlying Interest, or a merger, consolidation, dissolution or liquidation of the issuer of any Underlying Interest, the number of Derivative Instruments, the Unit of Trading, the Exercise Price, and the Underlying Interest, or any of them, with respect to all outstanding Derivative Instruments open for trading in that Underlying Interest may be adjusted in accordance with this Section A-902.
- (2) Subject to Subsection (10) of this Section A-902, all adjustments made pursuant to this Section A-902 shall be made by a committee (“Adjustments Committee”). The Adjustments Committee shall determine whether to make adjustments to reflect particular events in respect of an Underlying Interest, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to Clearing Members and the Corporation, the maintenance of a fair and orderly market in Derivative Instruments on the Underlying Interest, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the coordination with other clearing agencies of the clearance and settlement of transactions in the Underlying Interest. The Adjustments Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, exchanges and securities regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustments Committee pursuant to this Section A-902 shall be within the sole discretion of the Adjustments Committee and shall be conclusive and binding on all Clearing Members and not subject to review, other than review by securities and regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- (3) It shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest, or any cash dividend or distribution declared by the issuer of the Underlying Interest if such dividend or distribution is less than \$0.15 per share.
- (4) (i) It shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Derivative Instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest. In the case of Options and similar instruments, the Exercise Price per share in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading or the Multiplier (as defined below) shall remain the same.

- (ii) For Options and similar instruments, it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the Exercise Price in effect immediately prior to such event shall be proportionately reduced, and conversely, in the case of a reverse stock split, consolidation or combination of shares, or similar event, the Exercise Price in effect immediately prior to such event shall be proportionately increased. Whenever the Exercise Price with respect to an Option or similar instrument has been reduced or increased in accordance with this Subsection (4), the Unit of Trading or the Multiplier (as defined below) shall be proportionately increased or reduced, as the case may be.
 - (iii) For all Transactions other than Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Derivative Instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest.
 - (iv) For all Transactions other than Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the Unit of Trading shall be proportionately increased and, conversely, in the case of a reverse stock split, consolidation or combination of shares or similar event, the Unit of Trading shall be proportionately reduced.
 - (v) For the purpose of Rule A-9, the term “Multiplier” shall have the following meaning:
 “Multiplier” – in respect of any series of futures and options that are cash settled, means the number of units of the Underlying Interest which has been designated by the Corporation and the exchange on which the Derivative Instrument is traded as the number to be the subject of a single Derivative Instrument contract.
- (5) It shall be the general rule that in the case of any distribution made with respect to shares of an Underlying Interest, other than ordinary dividends or distributions subject to Subsection (3) of this Section A-902 and other than dividends or distributions for which adjustments are provided in Subsection (4) of this Section A-902, if an adjustment is determined by the Adjustments Committee to be appropriate,
- for Options and similar instruments:
- (i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
 - (ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted;

for all other Transactions for which an Exercise Price is not available:

the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment.

The Adjustments Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section A-902, have the authority to determine the value of distributed property.

- (6) In the case of any event for which adjustments are not provided in any of the foregoing Subsections of this Section A-902, the Adjustments Committee may make such adjustments, if any, with respect to the Derivative Instrument affected by such event as the Adjustments Committee determines.
- (7) Adjustments pursuant to this Section A-902 as a general rule shall become effective in respect of Transactions outstanding on the “ex-dividend date” established by the exchange or exchanges on which the Underlying Interest is traded. In the event that the “ex-dividend date” for an Underlying Interest traded on exchanges differs from one exchange to another, the Corporation shall deem the earliest date to be the “ex-dividend date” for the purposes of this Section A-902. “Ex-dividend dates” established by any other exchange or exchanges on which an Underlying Interest may be traded shall be disregarded.
- (8) Notwithstanding the general rules set forth in Subsections (3) through (7) of this Section A-902 or which may be set forth as interpretations and policies under this Section A-902, the Adjustments Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustments Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustments Committee affirmatively determines to make an exception in a particular case or group of cases.
- (9) The Adjustments Committee shall consist of two designated representatives of each exchange that lists the Derivative Instrument that the adjustments apply to, and one representative of the Corporation. The quorum for transacting business at any meeting of the Adjustments Committee shall be one from each exchange that lists the Derivative Instrument that the adjustments apply to and one from the Corporation. The vote of a majority of the members of the Adjustments Committee in attendance at any meeting shall constitute the determination of the Adjustments Committee. The Adjustments Committee may transact its business by means of a telephonic, electronic or other communication facility that permits all participants to communicate appropriately with each other during the meeting. Notwithstanding the foregoing provisions of this Subsection, any representative of the Corporation or of an exchange may designate any other representative of the Corporation or of the exchange, respectively, to serve in his place at any meeting of the Adjustments Committee. In the event of such designation, the designee, for the purposes of such meeting, shall have all of the powers and duties under this Section A-902 of the person designating him. Neither the Corporation nor any exchange shall designate to serve on the Adjustment Committee, any person, who, to the knowledge of the self-regulatory organization designating such person, is the beneficial holder of a long or short position in the Derivative Instrument as to which the Adjustments Committee is to make a determination. As stipulated in the By-laws of the Corporation, a majority of the members of the Adjustments Committee shall be resident Canadians.
- (10) In the event that the Adjustments Committee is unable to determine whether to make adjustments in any particular case, the matter shall be referred to the Board for a determination.

INTERPRETATIONS AND POLICIES

(1) (i) Cash dividends or distributions (regardless of size) declared by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection A-902(3). Cash dividends or distributions declared by the issuer of the Underlying Interest which are declared outside of a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis will be deemed to be “special cash dividends or distributions” if they exceed the threshold of \$0.15 per share.

(ii) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest in an aggregate amount that per dividend or distribution does not exceed 10% of the number of shares of the Underlying Interest outstanding as of the close of trading on the declaration date, and which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis will, as a general rule, be deemed to be “ordinary stock dividends or distributions” or “ordinary trust unit dividends or distributions” within the meaning of Subsection A-902(3).

(iii) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy or practice of paying such dividends or distributions and that exceeds \$0.15 per share will be deemed to be “special cash dividends or distributions”.

(iv) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy and that exceeds 10% of the number of shares of the Underlying Interest will be deemed to be “special stock dividends or distributions” or “special trust unit dividends or distributions”.

Nevertheless, the Adjustments Committee will determine, on its sole discretion, on a case-by-case basis whether other dividends or distributions are “ordinary dividends or distributions” or whether they are dividends or distributions for which adjustments should be made, regardless of the threshold of \$0.15 per share applied to “special dividends or distributions”.

(2) (i) Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the Underlying Interest, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the Underlying Interest, or are redeemed, the Adjustments Committee will determine whether adjustments are appropriate.

(ii) Adjustments will not be made to reflect a take-over bid or issuer bid made for the Underlying Interest, whether such offer is for cash, Securities or other property. This policy will apply without regard to whether the price of the Underlying Interest may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Transactions ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.

(iii) Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the Underlying Interest in the hands of the public (other than dissenters' shares) are not changed into another Security, cash or other property. For example, adjustments will not be made merely to reflect the issuance

(except as a distribution on an Underlying Interest) of new or additional debt, stock, trust units, or options, warrants or other securities convertible into or exercisable for the Underlying Interest, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the Underlying Interest outstanding or the sale by the issuer of significant capital assets.

(iv) When an Underlying Interest is converted into a right to receive a fixed amount of cash, such as in a merger, amalgamation, arrangement or similar event, outstanding Options or similar instruments will be adjusted to require the delivery upon exercise of cash in an amount per share equal to the conversion price. As a result of such adjustments, the value of all outstanding In-the-money Options or similar instruments will become fixed, and all At-the-money and Out-of-the-money Options or similar instruments will become worthless.

(v) In the case of a spin off or similar event by the issuer of an Underlying Interest which results in a property distribution, Derivatives Instruments will be adjusted to reflect such distribution. The value of the property distributed shall be reflected in the shares deliverable.

(vi) In the case of a corporate reorganization or similar occurrence by the issuer of an Underlying Interest which results in an automatic share-for-share exchange of the Underlying Interest for shares of another class in the capital of the issuer or in the resulting company, the Transactions on the Underlying Interest will ordinarily be adjusted to require delivery upon exercise of a like number of units of the shares of such other class or of the resulting company. Because the Securities are generally exchanged only on the books of the issuer and/or the resulting company, as the case may be, and are generally not exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original class of shares of the original issuer, but which, as a result of the corporate transaction, represent shares in the other class or in the resulting company, as the case may be.

(vii) When an Underlying Interest is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding option contracts that have been adjusted to call for delivery of such debt security or preferred stock shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon.

(viii) Notwithstanding Interpretation and Policy (1) of this Section A-902, a distribution of short-term and long-term capital gains in respect of index participation units by the issuer thereof, if such distribution equals or exceeds \$ 0.15 per unit shall not, as a general rule, be deemed to be "ordinary dividends or distributions" within the meaning of Subsection A-902(3), and adjustments of the terms of Options on such units for any such distributions shall be made in accordance with Subsection A-902(3) unless the Adjustments Committee determines, on a case-by-case basis, not to adjust for such a distribution.

PART B – OPTIONS

RULE B-1 CLEARING OF EXCHANGE TRANSACTIONS IN OPTIONS

The provisions of this Part B shall apply only to Exchange Transactions which are trades in Options issued by the Corporation pursuant to these Rules and to those Clearing Members who are required to make a base deposit to the Clearing Fund for Options clearing as set out in Subsection A-601(2)(a).

Section B-101 Responsibility of Members for Exchange Transactions

Every Clearing Member shall be responsible for the clearance of its own Exchange Transactions and of the Exchange Transactions of each exchange member or non-member which has agreed with the Clearing Member that its transactions will be cleared by such Clearing Member. A copy of each such clearing agreement shall be provided to the Corporation upon its request.

Section B-102 Maintenance of Accounts

- (1) Every Clearing Member shall establish and maintain with the Corporation the following accounts:
 - (a) One or more Firm Account(s) which shall be confined to Firm Transactions of such Clearing Member;
 - (b) A separate Market Maker Account for each Market Maker employed or sponsored by such Clearing Member; and
 - (c) One or more Client Account(s), which shall be confined to the Transactions of its Clients, if the Clearing Member conducts business with the public in Options.

Section B-103 Agreement Regarding Accounts

Every Clearing Member agrees as follows:

- (1) In respect of any Firm Account:
 - (a) the Corporation shall have a first priority security interest and hypothec in all Long Positions, Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for all of the Clearing Member's obligations to the Corporation;
 - (b) the Corporation shall have the right to net all Opening Writing Transactions and Closing Writing Transactions against all Opening Purchase Transactions and Closing Purchase Transactions with respect to a same Series of Options effected in such account, whether or not Transactions are denominated in the same currency; and
 - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation, at any time, without prior notice to the Clearing Member.

- (2) Each Clearing Member is responsible for all obligations owed to the Corporation in respect of every account opened by or in respect of such Clearing Member.
- (3) Amounts standing to the credit of a Clearing Member's accounts may be applied by the Corporation towards the payment of any sum whatsoever due by the Clearing Member to the Corporation, subject to Section B-109.
- (4) Each Market Maker Account shall be confined to the Exchange Transactions of the Market Maker for which it is established.
- (5) Each Market Maker shall enter into an agreement with the Clearing Member which shall provide that the Market Maker agrees with the Clearing Member and the Corporation that:
 - (a) the Corporation shall have a first priority security interest and hypothec in all Long Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of all Exchange Transactions effected through such account, Short Positions maintained in such account and Exercise Notices assigned to such account;
 - (b) the Corporation shall have the right to net all Opening Writing Transactions and Closing Writing Transactions against all Opening Purchase Transactions and Closing Purchase Transactions with respect to a same Series of Options effected in such account whether or not Transactions are denominated in the same currency; and
 - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation in respect of all Exchange Transactions effected through such account, Short Positions maintained in such account and Exercise Notices assigned to such account, at any time, without prior notice to the Market Maker or the Clearing Member.
- (6) Notwithstanding Subsection A-701(3), in respect of any Client Account:
 - (a) the Corporation shall not have a security interest and hypothec on the Long Positions in Options in such account but shall have a first priority security interest and hypothec to the extent set forth in these Rules on all other Margin Deposits deposited with the Corporation in respect of such account;
 - (b) the Corporation shall have the right to net all Opening Writing Transactions and Closing Writing Transactions against all Opening Purchase Transactions and Closing Purchase Transactions with respect to a same Series of Options effected in such account, whether or not Transactions are denominated in the same currency; and
 - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation with respect to all the Transactions in such account, at any time, without prior notice to the Clearing Member or the Clients.

Section B-104 Novation

Through novation, the Corporation acts as central counterparty between each Clearing Member.

All Options transactions that are submitted to the Corporation are registered in the name of the Clearing Member. Upon acceptance of the Transaction, novation occurs and the initial Transaction is replaced by two different transactions between the Corporation and each Clearing Member involved in the Transaction.

Each Clearing Member looks to the Corporation for the performance of the obligations under a Transaction and not to another Clearing Member. The Corporation shall be obligated to the Clearing Member in accordance with the provisions of these Rules. Furthermore, each client of a Clearing Member looks solely to the Clearing Member for performance of the obligations and not to the Corporation.

Section B-105 Obligation of Purchasing Clearing Member

The Clearing Member responsible for an Exchange Transaction which is either an Opening or Closing Purchase Transaction shall be obligated to pay the Corporation the amount of the premium agreed upon in such Exchange Transaction. Such payment shall be made as set forth in these Rules not later than the Settlement Time for such Exchange Transaction.

Section B-106 Obligations of the Corporation

An Exchange Transaction shall, subject to the fulfilment of the conditions precedent set forth in Sections B-108, be deemed to have been accepted by the Corporation at the time the trade information in respect of such Exchange Transaction is received by the Corporation from the Exchange. Notwithstanding the foregoing, the Corporation may reject any Exchange Transaction submitted for clearing by a Non Conforming Member. Upon the acceptance of an Exchange Transaction by the Corporation, the rights of the Clearing Members in respect of such transaction shall be solely against the Corporation and the Corporation shall be obligated to the Clearing Members in accordance with the provisions of these Rules. Upon acceptance of an Exchange Transaction, the Corporation shall be obligated as follows:

- (a) In an Opening Purchase Transaction, the Corporation shall be obligated to issue to the purchasing Clearing Member the Options purchased in such Exchange Transaction;
- (b) In a Closing Purchase Transaction, the Corporation shall be obligated to reduce the purchasing Clearing Member's Short Positions in the Series of Options involved in the account in which the Exchange Transaction was effected by the number of Options purchased in such Exchange Transaction;
- (c) In an Opening or Closing Writing Transaction, the Corporation shall be obligated to pay, at the time and in the manner specified by the Rules, to the writing Clearing Member the amount of the premium agreed upon in such Exchange Transaction.

Section B-107 Issuance of Options

- (1) The Corporation shall be the issuer of all Options purchased in Exchange Transactions. Subject to the provisions of Section B-108, an Option shall be issued by the Corporation in every Opening Purchase Transaction upon the acceptance of such transaction by the Corporation pursuant to Section B-106.

- (2) An Option shall carry the rights and obligations set forth in Section B-110 and shall contain the variable terms as agreed upon by the purchasing Clearing Member and writing Clearing Member as shown on the trade information filed by them with the Exchange on which such Exchange Transaction occurred and which is transmitted to the Corporation. In the event of a discrepancy between the trade information filed with the Exchange and the information reported to the Corporation, the latter shall govern as between the Clearing Member and the Corporation.

Section B-108 Exchange Report

- (1) The acceptance of every Exchange Transaction and the issuance of every Option by the Corporation as provided in Sections B-106 and B-107 shall be subject to the condition that the Exchange on which such Exchange Transaction occurred shall have provided the Corporation with the trade information submitted by the purchasing Clearing Member and the writing Clearing Member as to:
- (a) the identity of the purchasing Clearing Member and the writing Clearing Member;
 - (b) the Class and Series of Option;
 - (c) the premium per Unit of Trading;
 - (d) the number of contracts;
 - (e) in the case of a transaction in a Client Account, whether it is an opening or closing transaction; and
 - (f) such other information as may be required by the Corporation.

In the event any Exchange Transaction is rejected as herein provided, the Corporation shall promptly notify, either orally or in writing, the purchasing Clearing Member and all writing Clearing Members involved.

- (2) (a) A closing transaction in a Client Account which has been reported to the Corporation at a time when the Corporation's records indicated no corresponding open position in such account shall be considered as an initial operation provided that the number of contracts indicated in Paragraph (1)(d) of this Section B-108 exceeds the number of contracts, if any, for which there is an existing position.
- (b) The Corporation shall promptly notify the Clearing Member of any change affecting either all or part of a closing transaction, aiming at transforming such closing transaction into an initial operation in accordance with Paragraph (2)(a) of this Section B-108.
- (3) The Corporation shall have no liability for any loss resulting from the untimely submission by an Exchange to the Corporation of the information described in Subsection (1) of this Section B-108.

Section B-109 Payment to the Corporation

- (1) On each Business Day immediately following the acceptance of an Exchange Transaction, the purchasing Clearing Member shall pay to the Corporation at or prior to the Settlement Time on such Business Day, all amounts due to the Corporation in the account in which such Exchange

Transaction is effected. If the Corporation has not received such payment by the Settlement Time, the Corporation shall have the right to liquidate Transactions in such account and apply the proceeds thereof to the payment of the amounts due by such Clearing Member or apply any Margin Deposits of the Clearing Member; provided, however, the Corporation shall not apply Margin Deposits with respect to a Client Account for the payment of any amount owing on Transactions in any account other than the relevant Client Account, and further, the Corporation shall not apply any Margin Deposits with respect to a Market Maker Account for the payment of any amount owing on Transactions in any account other than that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation may without distinction apply the Clearing Member's Margin Deposit to offset any amounts due by the Clearing Member with respect to the relevant Exchange Transaction regardless of the account to which it is booked. If the Margin Deposits of the Clearing Member (as applicable) applied by the Corporation to the payment of the premium of such Exchange Transaction are insufficient to pay such premium in full, the resulting Long Position shall be subject to a lien, security interest and hypothec in favour of the Corporation and the Corporation shall have the right to close out or to exercise such Long Position and to apply the proceeds in satisfaction of the Clearing Member's obligations to the Corporation in respect of the relevant Exchange Transaction.

- (2) If a Clearing Member is late in making a payment at Settlement Time, the Corporation shall impose fines and may deem that Clearing Member a Non-Conforming Member, in accordance with Section 7 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.

Section B-110 General Rights and Obligations of Clearing Members

- (1) Subject to the provisions of the Rules, a Clearing Member holding a Long Position in a call Option has the right, beginning at the time such Option is issued pursuant to this Rule B-1 and expiring at the Expiration Time of such Option, to purchase from the Corporation at the aggregate Exercise Price the number of Units of Trading of the Underlying Interest represented by such Option, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.
- (2) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to deliver the number of Units of Trading of the Underlying Interest represented by such Option against payment of the aggregate Exercise Price, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.
- (3) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a put Option has the right, beginning at the time such Option is issued pursuant to this Rule B-1 and expiring at the Expiration Time of such Option, to sell to the Corporation at the aggregate Exercise Price the number of Units of Trading of the Underlying Interest represented by such Option, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.
- (4) A Clearing Member holding a Short Position in a put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the aggregate Exercise Price against delivery of the number of Units of Trading of the Underlying Interest represented by

such Option, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.

Section B-111 Terms of Options

- (1) The Expiration Date and Exercise Price of Options of each Series of Options shall be determined by the Exchange on which it is traded in agreement with the Corporation at the time such Series of Options is first opened for trading on an Exchange. No Series of Options shall be opened for trading without the consent of the Corporation.
- (2) The Unit of Trading of each Series of Options shall be designated by the Corporation and the exchange on which the Option is traded prior to the time such Series of Options is first opened for trading.
- (3) The Unit of Trading and Exercise Price initially established for a Series of Options are subject to adjustment in accordance with Section A-902.
- (4) The applicable provisions of these Rules including, without limitation, security interests in Options granted to the Corporation and the liquidation rights of the Corporation provided for therein, shall constitute part of the terms of each Option issued by the Corporation.

Section B-112 Long Positions

- (1) The Long Position of a Clearing Member in a Series of Options in a particular account will be created upon the Corporation's acceptance of such Clearing Member's Opening Purchase Transaction in such account in respect of one or more Options of such Series of Options. The amount of such Long Position shall be the number of Options so issued and such Long Position shall remain in force from day to day thereafter unless and until changed in accordance with the following:
 - (a) The Long Position shall be increased by the number of Options of such Series of Options which are the subject of Opening Purchase Transactions in such account and are thereafter accepted by the Corporation;
 - (b) The Long Position shall be reduced by the number of Options of such Series of Options for which the Clearing Member thereafter files an Exercise Notice with the Corporation in such account;
 - (c) The Long Position shall be reduced by the number of Options of such Series of Options which are the subject of Closing Writing Transactions in such account and which are thereafter accepted by the Corporation;
 - (d) The Long Position shall be eliminated at the Expiration Time for such Series of Options;
 - (e) The Long Position shall be increased by the number of Options of such Series of Options transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;

- (f) The Long Position shall be reduced by the number of Options of such Series of Options transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member;
 - (g) The number of Options in the Long Position may be adjusted from time to time in accordance with these Rules; and
 - (h) The Long Position may be closed out or transferred by the Corporation in accordance with these Rules including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.
- (2) Subject to these Rules any American Option held in a Long Position may be exercised at any time between the time it is accepted by the Corporation and its Expiration Time and any European Option held in a Long Position may be exercised only on its Expiration Date.

Section B-113 Short Positions

- (1) The Short Position of a Clearing Member in a Series of Options in a particular account will be created upon the Corporation's acceptance of such Clearing Member's Opening Writing Transaction in such account in respect of one or more Options of such Series of Options. The amount of such Short Position shall be the number of such Options involved in such transaction, and the Short Position shall remain in force from day to day thereafter unless and until changed in accordance with the following:
- (a) The Short Position shall be increased by the number of Options of such Series of Options which are the subject of Opening Writing Transactions in such account and are thereafter accepted by the Corporation;
 - (b) The Short Position shall be reduced by the number of Options of such Series of Options which are the subject of Exercise Notices thereafter assigned to the Clearing Member in such account in accordance with these Rules for application against such Short Position;
 - (c) The Short Position shall be reduced by the number of Options of such Series of Options which are the subject of Closing Purchase Transactions in such account and which are thereafter accepted by the Corporation;
 - (d) The Short Position shall be eliminated at the Expiration Time for such Series of Options;
 - (e) The Short Position shall be increased by the number of Options of such Series of Options transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
 - (f) The Short Position shall be reduced by the number of Options of such Series of Options transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member;
 - (g) The number of Options in the Short Position may be adjusted from time to time in accordance with these Rules; and

- (h) The Short Position may be closed out or transferred by the Corporation in accordance with these Rules including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.
- (2) The Corporation shall have the right to assign, in accordance with these Rules, its obligations in respect of any Option upon the exercise of such Option to any Clearing Member having a Short Position in the same Series of Options in any account.

Section B-114 Agreements of Writing Clearing Member in an Opening Writing Transaction

The Clearing Member responsible for an Opening Writing Transaction agrees with the Corporation that:

- (a) upon the Corporation's acceptance of such transaction, the Short Position of the Clearing Member in the account in which the transaction is effected shall be created or increased, and subsequently maintained, in accordance with Section B-113;
- (b) so long as such Short Position is thereafter maintained, the Clearing Member responsible shall make all required initial and maintenance margin payments in accordance with these Rules; and
- (c) in the event that an Exercise Notice is assigned to such Clearing Member, it shall perform, on behalf of the Corporation, the Option in accordance with its terms and with these Rules.

Section B-115 Closing Writing Transactions

A Clearing Member responsible for a Closing Writing Transaction agrees that, upon the Corporation's acceptance of such transaction, the Corporation shall reduce or eliminate the Clearing Member's Long Position and, when Paragraph (2)(a) of Section B-108 is applicable, it shall create a Short Position in the account through which the transaction was effected by the number of Options involved.

Section B-116 Closing Purchase Transactions

A Clearing Member responsible for a Closing Purchase Transaction agrees that, upon the Corporation's acceptance of such transaction, the Corporation shall reduce or eliminate the Clearing Member's Short Position and, when Paragraph (2)(a) of Section B-108 is applicable, it shall create a Long Position in the account through which the transaction was effected by the number of Options involved.

Section B-117 Settlement When Delivery of Underlying Interest is Restricted

- (1) Notwithstanding anything contained in these Rules, the Board shall be empowered to impose such restrictions on the exercise of one or more Series of American Options as the Board in its judgment deems necessary or advisable in the interest of maintaining a fair and orderly market in Options or in the Underlying Interest or otherwise deems advisable in the public interest or for the protection of investors.
- (2) During the effectiveness of any such restriction, no Clearing Member shall effect an exercise for any account in contravention of such restriction. Notwithstanding the foregoing, no such restriction on

exercise shall remain in effect with respect to any Series of Options on the Expiration Date for such Series of Options or, in the case of American Options, during the ten days prior to the Expiration Date of such Series of American Options. During such ten day period, or thereafter, the Board may restrict the delivery upon exercise of the Underlying Interest not owned/held by the Clearing Member holding a Short Position in a call Option to whom an Exercise Notice is assigned, in which event the Corporation shall, at the beginning of each Business Day during which such restriction is in effect, fix a settlement value, if any, for such series of call Options; and any Clearing Member holding a Short Position in call Options of that series who is assigned an Exercise Notice shall, to the extent that the Clearing Member does not own/hold the Underlying Interest required to be delivered, be obligated to pay, and the Clearing Member holding a Long Position in a call Option whose Exercise Notice has been assigned shall give a receipt in full for, a cash amount equivalent to the settlement value so determined for the day the Exercise Notice is assigned. Further, during the ten day period or thereafter, the Board may restrict the delivery upon exercise of the Underlying Interest not owned/held by the Clearing Member holding a Long Position in a put Option who has exercised such put Option, in which event the Corporation shall, at the beginning of each Business Day during which such restriction is in effect, fix a settlement value, if any, for such series of put Options and any Clearing Member holding a Short Position in put Options of that series who exercises such Options shall, to the extent that he does not own the Underlying Interest required to be delivered, be obligated to accept, and the Clearing Member holding a Short Position in the put Option to whom an Exercise Notice is assigned shall pay a cash amount equal to the settlement value so determined for the day the Exercise Notice is assigned.

Section B-118 Certificateless Trading

Certificates for Options will not be issued by the Corporation to evidence the issuance of Options.

RULE B-2 TRADE REPORTING

Section B-201 Trade Reporting of Options Transactions

- (1) Prior to the Settlement Time on each Business Day, the Corporation shall issue to each Clearing Member a Consolidated Activity Report for each account maintained by the Clearing Member with the Corporation. The Consolidated Activity Report shall list, among other things, all Exchange Transactions of the Clearing Member in such account effected on the previous Business Day.
- (2) On each Expiration Date the Corporation shall issue to each Clearing Member a report (“Daily Transaction Report”) which shall list all Exchange Transactions of the Clearing Member in such account effected on the last day of trading in Options which are expiring on such Expiration Date.
- (3) On every Business Day and Expiration Date the Corporation shall issue a transaction report to each Clearing Member of each Exchange.
- (4) Every Consolidated Activity Report shall show for each Exchange Transaction in Options listed thereon:
 - (a) the identity of the purchasing Clearing Member and the writing Clearing Member;
 - (b) the Class and Series of Option;
 - (c) the premium per Unit of Trading;
 - (d) the number of contracts;
 - (e) in the case of a transaction in a Client Account whether it is an opening or closing transaction; and
 - (f) such other information as may be required by the Corporation.
- (5) It shall be the responsibility of each Clearing Member to ensure that any report issued to it pursuant to Subsections (1) or (2) is correct. If an error is thought to exist it shall be the further responsibility of each Clearing Member, where possible, to reconcile such error with the Clearing Member on the opposite side of the Exchange Transaction and such Clearing Members shall jointly report the corrected information to the Corporation. If the difference cannot be reconciled, the trade must be jointly reported to the Corporation as a rejected trade by both Clearing Members participating in it.
- (6) Each Clearing Member shall have until 11 a.m. on the Expiration Date for expiring Series of Options (or such other time as may be specified) and until 1.5 hours prior to the Close of Business on the Business Day following the day on which the Exchange Transaction took place for non-expiring Series of Options to notify the Corporation, in the form prescribed, of any error. Unless such notification is received by the established deadline, and unless the correction of such error is rejected by the Corporation which is entitled to do so if it deems appropriate, the Exchange Transactions accepted by the Corporation as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

- (7) Each Clearing Member shall be responsible to the Corporation in respect of each Exchange Transaction reported to the Corporation by an Exchange in which such Clearing Member is identified as a purchasing Clearing Member, writing Clearing Member or the Associate Clearing House responsible for such Exchange Transaction whether or not such Exchange report was correct, unless the Corporation is notified of any errors in compliance with this Rule.

RULE B-3 TENDER AND ASSIGNMENT OF EXERCISE NOTICES

Section B-301 Exercise of Options

Issued and unexpired Options may be exercised only in the following manner:

(1) **American Options:**

- (a) on the Expiration Date in accordance with Rule B-307 hereof; or
- (b) on a Business Day other than the Expiration Date a Clearing Member desiring to exercise an Option may tender an Exercise Notice to the Corporation until the Close of Business on such Business Day.

(2) **European Options:**

- (a) on the Expiration Date in accordance with Rule B-307 hereof.

Only the Clearing Member who holds the relevant open position may tender an Exercise Notice on that position.

Section B-302 Tender of Exercise Notices

- (1) Every Exercise Notice must refer to a full Option and no Option is exercisable in part.
- (2) Every tender of an Exercise Notice in accordance with Subsection B-301(1) shall be irrevocable except that where an Exercise Notice is tendered in error, it may be cancelled by the Clearing Member until the Close of Business on the Business Day when the erroneous tender was made.
- (3) Every tender of an Exercise Notice in accordance with Subsection B-301(2) shall be irrevocable.
- (4) Exercise Notices may be tendered in respect of Opening Purchase Transactions which have not yet been accepted by the Corporation, and shall be assigned by the Corporation at the same time and in the same manner as Exercise Notices filed on the same Business Day in respect of issued Options, provided that any such Exercise Notice shall be deemed null and void and of no force or effect if the Opening Purchase Transaction in respect of which it was tendered is not accepted by the Corporation on the earlier of the Expiration Date or the Business Day immediately following the date on which such Exercise Notice was filed.

Section B-303 Restrictions on the Tender of Exercise Notices

Whenever the Corporation or an Exchange on which a member of the Corporation is member, acting pursuant to its rules, imposes a restriction on the exercise of one or more series of American Options on the grounds that such restriction is deemed advisable in the interests of maintaining a fair and orderly market in Options or in the Underlying Interest or is otherwise in the interest of the market in general or for the protection of investors, Options of such Series of Options shall not be exercisable by any Clearing Member except in accordance with the terms of such restriction. Notwithstanding the foregoing, no such restriction on exercise shall remain in effect with respect with any series of Options on

the Expiration Date for such series of Option or, in the case of American Options, during the ten days immediately prior to the Expiration Date of such series of Options.

Section B-304 Acceptance of Exercise Notices

An Exercise Notice properly tendered to the Corporation in accordance with Paragraph B-301(1)(b) or deemed to have been properly tendered in accordance with Section B-307 shall normally and routinely be accepted by the Corporation on the day of tender, except when the Corporation determines that to do so may not be in the interest of the Corporation, the public, or to the integrity of the market. The Corporation shall not be under any obligation to verify that an Exercise Notice received from a Clearing Member is or is deemed to be properly tendered.

Section B-305 Random Assignment of Exercise Notices

- (1) Exercise Notices accepted by the Corporation shall be assigned, in accordance with the Corporation's procedures of random selection, to accounts with open Short Positions in the Series of Options involved. The Corporation shall treat the accounts of all Clearing Members equally, provided, however, that an Exercise Notice for more than 10 Options will be randomly assigned to accounts in blocks not exceeding 10 Options, except on the Expiration Date when an Exercise Notice may be randomly assigned in total.
- (2) Subject to Subsection B-309(2) Assignment of Exercise Notices shall be made at or before 8 a.m. on the Business Day next following the day on which the Exercise Notice was tendered in accordance with Paragraph B-301(1)(b) or was deemed to have been tendered in accordance with Section B-307.
- (3) If an Exercise Notice is tendered in accordance with Paragraph B-301(1)(b), the assignment of such Exercise Notice shall be deemed tendered as of the day on which the Exercise Notice was tendered. If an Exercise Notice is tendered in accordance with Paragraph B-301(1)(a), the assignment of such Exercise Notice shall be deemed tendered as of the Business Day preceding the Expiration Day.
- (4) An Exercise Notice shall not be assigned to any Clearing Member which has been suspended for default or insolvency. An Exercise 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.

Section B-306 Reporting of Exercises and Assignments

A Clearing Member submitting an Exercise Notice and a Clearing Member to whom an Exercise Notice is assigned shall be notified of the receipt and assignment of such Exercise Notice in:

- (a) reports ("Options Exercised and Assigned Report" and "Options Unsettled Delivery Report") issued on the following Business Day; or
- (b) a report ("Expiry Report") issued for expiring Series of Options only on Expiration Date.

Section B-307 Expiration Date Exercise Procedure

The following rules shall apply to the exercise of an Option on its Expiration Date:

- (a) At or before 8 a.m. on each Expiration Date, the Corporation shall make available to each Clearing Member an Expiry Response Screen listing, by account, each expiring Option in each of the Clearing Member's accounts with the Corporation. The Expiry Response Screen shall reflect the closing price (as herein defined) of the Underlying Interest for each Series of Options listed therein and shall include such further information as the Corporation may deem appropriate.
- (b) (i) Each Clearing Member shall be required to access the Expiry Response Screen by electronic means. Each Clearing Member may notify the Corporation of the number of Options of each series, if any, to be exercised for each account. If no Options of a particular series are to be exercised for a particular account, the Clearing Member must notify the Corporation to this effect.
- (ii) Each Clearing Member shall make a Confirmation Transmission in the form prescribed no later than 11:00 a.m. on the Expiration Date. Instructions to exercise Options transmitted to the Corporation shall be irrevocable and may not thereafter be modified.
- (c) It shall be the duty of each Clearing Member to review the Expiry Response Screen against the Clearing Member's own position records and to verify the accuracy of the closing prices reflected on such Expiry Response Screen. If a Clearing Member discovers any error or omission on an Expiry Response Screen, the Clearing Member shall immediately notify the Corporation thereof and co-operate with the Corporation in reconciling any discrepancies. If a Clearing Member's position records reflect expiring Options not listed in its Expiry Response Screen, and the Clearing Member and the Corporation are unable to reconcile their respective position records, the Clearing Member may exercise any Option not listed in its Expiry Response Screen (to the extent that such Options are subsequently determined to have existed in the Clearing Member's accounts) by input to the Expiry Response Screen, together with appropriate exercise instructions, or by tendering Exercise Notices with respect to such Options in accordance with Subsection (d) hereafter.
- (d) If, after the Clearing Member has made a Confirmation Transmission but prior to the Expiration Time, a Clearing Member desires to exercise Options expiring on such Expiration Date in addition to those which the Clearing Member has previously instructed the Corporation to exercise, the Clearing Member may do so by tendering a written Exercise Notice to the Corporation, prior to the Expiration Time, using such facilities as the Corporation may designate from time to time.
- (e) Each Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the Expiration Time on such Expiration Date, an Exercise Notice with respect to:
 - (i) each Option listed on the Clearing Member's Expiry Response Screen which the Clearing Member has instructed the Corporation to exercise in accordance with Subsections (b), (c) or (d) of this Section B-307; and
 - (ii) every Option of each series listed in the Clearing Member's Expiry Response Screen which is of a Class of Options subject to automatic exercise and which has an exercise price below (in the case of a call) or above (in the case of a put) the closing price of the Underlying Interest by such amounts as may be specified by the Corporation from time

to time, unless the Clearing Member shall duly instruct the Corporation in accordance with Subsection (b) to exercise none or fewer than all of the Options of such series carried in such account. If the Clearing Member desires that such Option not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Subsection (b).

INTERPRETATION AND POLICIES: The Predetermined Limits relevant to Paragraph B-307 (e) (ii) are as follows:

- | | | |
|--|---|---|
| Equity, Silver, Bond and Index Participation | - | \$0.01 or more in-the-money for Client Accounts |
| | | \$0.01 or more in-the-money for Firm and Market Maker Accounts |
| Index, Gold and Futures Options | - | No limits. All in-the-money Long Positions will be automatically exercised. |

- (f) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation between the hours stipulated by the Corporation on each Expiration Date.
- (g) The Corporation shall have no liability to any Clearing Member in respect of any claims, costs, losses, damages or expenses resulting from the exercise or non-exercise of any Option due to any error or omission (whether relating to the inclusion of Options, the determination of closing prices, the making of computations or otherwise) on any Expiry Response Screen whether or not the Clearing Member reviewed such Expiry Response Screen. Any Clearing Member who fails to comply with Paragraphs (b) (i) and (ii) and Subsection (f) shall indemnify and hold the Corporation harmless from any costs, losses, expenses or claims which may arise, directly or indirectly, from the Clearing Member's failure to comply with these provisions.
- (h) On any Expiration Date, the Corporation may in its discretion extend any or all of the times prescribed in Subsections (a) to (f) provided that in no event, except pursuant to Section A-208 of these Rules, shall
 - (i) the deadline for the Confirmation Transmission to the Corporation be extended beyond the Expiration Time,
 - (ii) the time of the availability of any Expiry Response Screen be extended to a time less than two hours before the Expiration Time.
- (i) The untimely transmission of the Confirmation Transmission by a Clearing Member shall be deemed a violation of the Rules and shall cause the Clearing Member to be deemed a Non-Conforming Member subject to disciplinary action pursuant to Rule A-4 and Rule A-5, unless the Clearing Member was prevented by unusual or unforeseen conditions or events (including, but not limited to fire, strike, power failure, extraordinary weather conditions, accident,

computer malfunction, acts of public authorities and business or banking moratoriums) from returning such report to the Corporation on a timely basis.

- (j) The tendering of an Exercise Notice by a Clearing Member pursuant to Subsection (d) after the time established for the Confirmation Transmission shall be deemed a violation of the Rules and shall cause the Clearing Member to be deemed a Non-Conforming Member, subject to disciplinary action pursuant to Rule A-4 and Rule A-5 unless the Exercise Notice was tendered for the account of a client of the Clearing Member, and
 - (i) the Clearing Member was prevented from giving the exercise instruction contained therein to the Corporation on a timely basis by unusual or unforeseen condition or events of the type described in Subsection (i) affecting the Clearing Member's ability to communicate such instructions to the Corporation or to receive or process such instructions from clients, or
 - (ii) in the case of exercise instructions given for the account of clients other than Market Makers or other broker-dealers submitting exercise instructions for their own accounts, the Clearing Member was satisfied that the client was unable, due to exceptional circumstances, to communicate such instructions on a timely basis.
- (k) Notwithstanding that a Confirmation Transmission shall be deemed to have been made or an Exercise Notice shall be deemed to have been tendered in violation of the Rules pursuant to Subsection (i) or (j), all exercise instructions properly given therein shall be valid and effective provided that such Confirmation Transmission shall be made or such Exercise Notice is tendered prior to the Expiration Time. If a Clearing Member makes a Confirmation Transmission after the time required for making such transmission, or files an Exercise Notice pursuant to Subsection (d) after making the Confirmation Transmission, the Clearing Member shall be obligated to advise the Corporation in writing of the specific reasons therefore within two Business Days thereafter.
- (l) The term “closing price”, as used with respect to any Underlying Interest in this Section B-307, means the price of the Underlying Interest at or about the close of trading on the Business Day preceding the Expiration Date as reported to the Corporation by the Primary Exchange. If no trading took place on the Primary Exchange on such Business Day, then the price for such Security at or about the close of trading as reported to the Corporation by the other Exchange will be used.

Notwithstanding the foregoing, if an Underlying Interest was not traded on the Business Day immediately preceding any Expiration Date or circumstances indicate that there may be other uncertainty regarding the Underlying Interest, the Corporation may determine not to fix a closing price for that Underlying Interest. In the event of such a determination, Expiry Response Screens will not include a daily closing price for that Underlying Interest, and Clearing Members may exercise Options for the Underlying Interest only by giving affirmative exercise instructions in accordance with Subsection (b) or (e).

Section B-308 Assignment of Exercise Notices to Clients

- (1) Assignment to an account other than that indicated on a report (“Options Exercised and Assigned Report”) is not permitted.

- (2) Each Clearing Member shall establish fixed procedures for the allocation of Exercise Notices assigned to it in respect of a Short Position in the Clearing Member's Client Account. The allocation shall be on a “first in, first out” basis, on a basis of random selection, or another allocation method that is fair and equitable to the Clearing Member's clients and consistent with the regulations, rules and policies of each Exchange on which the Option is traded, if applicable. Such allocation procedures and any changes thereto shall be reported to the Corporation on request.
- (3) No Clearing Member shall permit, unless there is no alternative, the allocation of an exercise against a Short Position that was opened on the day of such allocation.

Section B-309 Reassignment

- (1) With the exception of an Expiration Date, Clearing Members have until 1.5 hours prior to the Close of Business on the Business Day following the date on which an assignment of an Exercise Notice is effective pursuant to Subsection B-305(3) to notify the Corporation of any condition which may make such assignment invalid.
- (2) The Corporation may reassign Exercise Notices when it considers it necessary or advisable to do so until one-half hour prior to the Close of Business on the Business Day following the date on which such Exercise Notice was first assigned.

RULE B-4 DELIVERY AND PAYMENT WITH RESPECT TO OPTIONS EXERCISED

Section B-401 Definitions

Notwithstanding another meaning assigned to these terms in any other Rule, for the purposes of Rule B-4, the following terms shall have the following meanings respectively:

“Security Funds” means any additional deposit(s) by a Clearing Member required by the Corporation to be placed with the Corporation to ensure performance of a Clearing Member's obligations.

“Time of Delivery” means the time specified in Section B-404 by which a Clearing Member must make delivery of, or accept delivery and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

“Delivering Clearing Member” means the assigned Clearing Member, in the case of an exercise of a call Option, or the exercising Clearing Member, in the case of an exercise of a put Option.

“Receiving Clearing Member” means the exercising Clearing Member, in the case of an exercise of a call Option, or the assigned Clearing Member, in the case of an exercise of a put Option.

Section B-402 Delivery Advice

- (1) The Corporation will issue a report (“Options Exercised and Assigned Report”) on the following Business Day to each Clearing Member who submitted an Exercise Notice and to each Clearing Member to whom an Exercise Notice has been assigned. Such report shall identify the Clearing Member, the account in respect of which the Exercise Notice was tendered or to which the Exercise Notice is assigned, the number of contracts, by series, exercised or assigned and the value.
- (2) The Corporation will issue a daily report (“Unsettled Delivery Report”) on the following Business Day to each Clearing Member who submitted an Exercise Notice and to each Clearing Member to whom an Exercised has been assigned. Such report shall identify all items which have not yet been delivered.

Section B-403 Delivery and Payment

Unless otherwise specified by the Corporation, delivery of the Underlying Interest and payment therefor shall be made as directed by the Corporation in accordance with the Rules then in effect.

Section B-404 Obligation to Deliver

The Delivering Clearing Member shall deliver the Underlying Interest specified in a report (“Unsettled Delivery Report”) in Good Deliverable Form against payment of the Exercise Settlement Amount on or before 1:45 p.m. on the date set forth in the Report as the Exercise Settlement Date, provided that in addition to applicable provisions of the Rules:

- (a) the Corporation may impose such penalties as it deems appropriate for the failure to make timely delivery of the Underlying Interest;

- (b) the Board may extend or postpone the time for delivery or payment whenever, in its opinion, such action is required in the public interest or to meet unusual conditions;
- (c) in the event the Delivering Clearing Member is obligated, pursuant to the provisions of Section B-116, to pay on the Exercise Settlement Date the settlement value in respect of the Underlying Interest, then in lieu of any other right or obligation hereunder or under the Option the Delivering Clearing Member shall be obligated to pay, and the Receiving Clearing Member to receive, the settlement value fixed in accordance with Section B-116;
- (d) the Corporation may designate a different Exercise Settlement Date for property that is deliverable as a result of an adjustment of the exercised Option pursuant to these Rules; and
- (e) if delivery of the Underlying Interest by the Delivering Clearing Member is not effected by the time provided in this Section B-404, the Receiving Clearing Member shall inform the Corporation of such failure no later than 2:00 p.m. on the Exercise Settlement Date, but failure to do so shall not prevent the application of any provision of the Rules to the Delivering Clearing Member. The Receiving Clearing 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 B-405 Obligation of Receiving Clearing Member

The Receiving Clearing Member shall receive the Underlying Interest specified in a report (“Options Unsettled Delivery Report”) and make payment of the Exercise Settlement Amount on or before 1:45 p.m. on the date set forth in the report as the Exercise Settlement Date, provided that:

- (a) the Corporation may impose such penalties as it deems appropriate for the failure to make timely payment for the Underlying Interest;
- (b) the Board may extend or postpone the time for delivery or payment whenever, in its opinion, such action is required in the public interest or to meet unusual conditions;
- (c) in the event the Delivering Clearing Member is obligated, pursuant to the provisions of Section B-117, to pay on the Exercise Settlement Date the settlement value in respect of the Underlying Interest, then in lieu of any other right or obligation hereunder or under the Option the Delivering Clearing Member shall be obligated to pay, and the Receiving Clearing Member to receive, the settlement value fixed in accordance with Section B-117;
- (d) the Receiving Clearing Member shall comply with such acknowledgement procedures as may be established by the Corporation;
- (e) the Corporation may designate a different Exercise Settlement Date for property that is deliverable as a result of an adjustment of the exercised Option pursuant to these Rules; and

- (f) if payment for the Underlying Interest by the Receiving Clearing Member is not effected by the time provided in this Section B-405, the Delivering Clearing Member shall inform the Corporation of such failure no later than 2:00 p.m. on the Exercise Settlement Date, but failure to do so shall not prevent the application of any provision of the Rules to the Receiving Clearing Member. The Delivering Clearing 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 B-406 Delivery Prior to Exercise Settlement Date

The acceptance of a delivery prior to the Exercise Settlement Date shall be at the option of the Receiving Clearing Member.

Section B-407 Failure to Deliver

If the Delivering Clearing Member required to make delivery under Section B-404 fails to complete such delivery by the Exercise Settlement Date (a “Failed Delivery”), the Delivering Clearing Member will become a Non-Conforming Member and may be subject to disciplinary action pursuant to Rule A-5. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect delivery or otherwise settle with the Receiving Clearing Member. Without limiting the generality of the foregoing, the Corporation may acquire and deliver the Underlying Interest on the open market, enter into an agreement with the Receiving Clearing Member and the Delivering Clearing Member relating to the Failed Delivery, and/or take such other action as the Corporation may, in its sole discretion, deem appropriate or necessary in order to ensure that Clearing Members’ obligations are fulfilled and any such action shall constitute an obligation of the Delivering Clearing Member. In the event that the purchase of the undelivered Underlying Interest at the best available market for the account of the Receiving Clearing Member exceeds the Exercise Settlement Amount, the Delivering Non-Conforming Member shall be liable for and shall promptly pay to the Corporation or the Receiving Clearing Member as the case may be, the amount of such difference.

Section B-408 Failure to Receive Delivery

If the Receiving Clearing Member required to receive under Section B-405 fails to receive, or fails to pay the Exercise Settlement Amount for, all the Underlying Interest delivered to it in Good Deliverable Form in fulfillment of an exercised Option, and such failure shall continue beyond 1:45 p.m. on the Exercise Settlement Date, the Receiving Clearing Member will become a Non-Conforming Member and may be subject to disciplinary action pursuant to Rule A-5. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect payment to, or otherwise settle with, the Delivering Clearing Member. Without limiting the generality of the foregoing, the Corporation or the Delivering Clearing Member may, upon notice to the Non-Conforming Receiving Clearing Member and, if such action is taken by the Delivering Clearing Member, to the Corporation, sell out in the best available market, for the account and liability of the Non-Conforming Receiving Clearing Member, all or any part of the undelivered Underlying Interest, and/or take such other action as the Corporation may, in its sole discretion, deem appropriate or necessary in order to ensure that the Clearing Members’ obligations are fulfilled and any such action shall constitute an obligation of the Receiving Clearing Member. Notice of any deficiency arising from such sell-out shall be submitted immediately to the Corporation and the Non-Conforming Receiving Clearing Member. The Non-Conforming Receiving Clearing Member shall pay promptly, and in any event prior to 10:00 a.m. on the Business Day immediately following the day on which

the sell-out is executed, to the Delivering Clearing Member the difference, if any, between the Exercise Settlement Amount and the price at which such Underlying Interest was sold out.

Section B-409 Penalties and Restrictions

- (1) In addition to measures available to the Corporation against Non-Conforming Members under the Application for Membership the Board shall set by resolution, from time to time, the penalties payable in the event that a Clearing Member fails to make delivery or fails to accept delivery and make payment when required to do so in accordance with the Rules and By-laws; provided, however, that the penalty for any single such failure shall not exceed \$250,000. The amount of these penalties shall be in addition to any other sanctions that may be imposed by the Corporation pursuant to these Rules, notably under Rule A-4 or Rule A-5. If a Clearing Member fails to make delivery or accept delivery and make payment, as required under the Rules and By-laws, such penalty shall be assessed against it commencing as of the Time of Delivery and continuing until the Non-Conforming Member's obligations to the Corporation are fulfilled or the Non-Conforming Member is suspended pursuant to Rule A-4, whichever is the sooner.
- (2) Where at the Time of Delivery a Delivering Clearing Member fails to make delivery or a Receiving Clearing Member fails to accept delivery and make payment, the Non-Conforming Member's clearing activities shall immediately be restricted to Closing Purchase Transactions and Closing Sell Transactions, unless the Corporation determines that it is not necessary to impose such restriction, in whole or in part. This restriction shall continue until the Non-Conforming Member deposits Security Funds with the Corporation in accordance with Sections B-411 and B-412, or, if such funds are not deposited, until otherwise determined by the Chairperson of the Board and any two of its directors. Nothing in this Subsection B-409(2) shall prevent the Corporation from immediately suspending a Non-Conforming Member under Rule A-4.

Section B-410 Notification of Failure to Make Delivery/Make Payment

The Corporation shall report a Non-Conforming Member, and all circumstances surrounding the transaction that the Corporation deems relevant or appropriate, to each of the Exchanges, any appropriate self regulatory agency or regulatory agency, other Clearing Members, and to any other Entity considered appropriate or necessary by the Corporation. Such notice may include, but is not restricted to, the following information: the identities of the Delivering Clearing Member and the Receiving Clearing Member, the notional value of the transaction, the issue to be delivered, the settlement amount and any other information considered appropriate or relevant by the Corporation.

Section B-411 Form of Security Funds

Security Funds shall be in the same form as deposits accepted by the Corporation pursuant to Section A-608.

Section B-412 Deposit of Security Funds

- (1) Where a Delivering Clearing Member has defaulted on the delivery of an Underlying Interest, it shall become a Non-Conforming Member and it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds in an amount equal to not less than 105% of the market value of the Underlying Interest to be delivered. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section B-409, shall end. The deposit of the

Security Funds with the Corporation as herein provided does not discharge any obligation of such Clearing Member to the Corporation including the payment of any penalties or the payment of costs incurred by the Corporation in connection with the Clearing Member's default, and does not preclude the suspension of such Clearing Member under Section A-1A05 or the assessment of additional sanctions under Rule A-4 and Rule A-5.

- (2) Where a Receiving Clearing Member has failed to accept the delivery of an Underlying Interest and make payment therefor, it shall become a Non-Conforming Member and it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds equal to the settlement value, or, in the sole discretion of the Corporation, in an amount equal to the difference between the liquidating value of the Underlying Interest and the settlement value, or such other amount as the Corporation may determine. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section B-409, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Clearing Member to the Corporation including the payment of any penalties or payment of costs incurred by the Corporation in connection with the Clearing Member's default, and does not preclude the suspension of such Clearing Member under Section A-1A05 or the assessment of additional sanctions under Rule A-4 and Rule A-5.
- (3) Subject to Subsection A-701(3), the Security Funds deposited by a Non-Conforming Member shall be used, together with other Margin Deposits of the Non-Conforming Member, by the Corporation to effect delivery of or make payment in respect of the Underlying Interest, or otherwise meet the Corporation's obligations in respect of the transaction, or for any of the other purposes set forth in Subsection A-701(2).

Section B-413 Effecting Delivery/Payment

- (1) Where a Delivering Clearing Member has failed to make a delivery or a Receiving Clearing Member has failed to accept a delivery and make payment therefor, the Corporation shall use any funds available to it for such purposes, in such manner as it shall, in its sole discretion, consider appropriate, to effect delivery of or make payment in respect of the Underlying Interest, or otherwise settle such failed transaction. The Corporation will endeavour to effect delivery or make payment as soon as practicable, given the nature of the Underlying Interest and all of the circumstances of the particular transaction.
- (2) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing exceeds the Security Funds (if any) deposited under Section B-412, and the Non-Conforming Member's Margin or Clearing Fund deposits, the Non-Conforming Member shall be liable to and shall promptly pay the Corporation the amount of the excess, in addition to any penalties and other sanctions that may be assessed, and the Corporation's reasonable expenses, including legal fees.
- (3) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing is less than the Security Funds (if any) deposited under Section B-412, any excess, less all assessed penalties and reasonable expenses, including legal fees, incurred by the Corporation, will be promptly returned to the Clearing Member, once the Corporation is satisfied that all obligations of the Clearing Member have been met.

Section B-414 Other Powers of the Corporation

Notwithstanding the foregoing, the Corporation shall have the power to require a Non-Conforming Member to deposit such other funds or Security as the Corporation may, in its sole discretion, determine is necessary or advisable given the nature and value of the Underlying Interest and all of the circumstances of the failed transaction. A Non-Conforming Member shall cooperate fully with the Corporation in respect of the failed transaction and shall promptly provide the Corporation with such information relating thereto and to the Non-Conforming Member, as the Corporation may request.

Section B-415 Suspension and Other Disciplinary Action

Notwithstanding any penalties or restrictions imposed on the Non-Conforming Member pursuant to Section B-409, the Corporation may suspend the Non-Conforming Member pursuant to Section A-1A05 or impose sanctions provided in Rules A-4 and A-5.

Section B-416 Force Majeure or Emergency

If delivery, settlement or acceptance or any precondition or requirement is prevented by *force majeure* or an Emergency, the affected Clearing Member shall immediately notify the Exchange involved and the Corporation. The Exchange involved and the Corporation shall take such action as they deem necessary under the circumstances and their decision shall be binding upon all parties to the contract. Without limiting the generality of the foregoing, they may modify the Settlement Time and/or the settlement date; designate alternate or new delivery and settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or delivery and settlement process; and/or fix a Settlement Price.

RULE B-5 OPTIONS CONTRACT SPECIFICATIONS

Section B-501 Designation of Options

Options shall be designated by reference to the Underlying Interest, the month of expiration, the Exercise Price and the Type and Style of Options.

Section B-502 Approval of Underlying Interest

The Underlying Interest of an Option issued by the Corporation and the Unit of Trading of that Underlying Interest shall be approved by the Board following the recommendation of one or more Exchanges.

Section B-503 Withdrawal of Approval of Underlying Interest

Whenever the Board determines that an Underlying Interest previously approved for any reason should no longer be approved, the Corporation shall instruct each Exchange not to open for trading any additional Series of Options of the Class of Options covering that Underlying Interest and to prohibit any Opening Purchase Transaction in Options of that Class of Options, except as such Exchange shall deem necessary.

Section B-504 Terms of Options

- (1) The month of expiration and Exercise Price of Options of each Series of Options shall be determined by the Exchange on which they are traded subject to the agreement by the Corporation. The Exercise Price of each Series of Options shall be fixed at a price which is reasonably close to the price at which the Underlying Interest is traded in the relevant markets at the time such Series of Options is first opened for trading. Additional Series of Options of the same Class of Options may be opened as the market price of the Underlying Interest moves substantially from the initial price or prices.
- (2) The Unit of Trading and the Exercise Price initially established for a Series of Options by the Exchange are subject to adjustment in accordance with these Rules. When adjustments have been made, notice thereof shall be promptly given by each Exchange on which it is traded to all Clearing Members and the adjusted Unit of Trading and the adjusted Exercise Price shall be posted on the trading floor on which the Series of Options is traded.

RULE B-6 STOCK OPTIONS

This Rule B-6 is applicable to American and European Style Options where the Underlying Interest is a class of shares (a “Stock”). Such Options are referred to in this Rule B-6 as “Stock Options”.

Section B-601 Definitions

Notwithstanding Section A-102 for the purposes of Stock Options the following terms shall have the meanings specified:

“Canadian Exchanges” –The Toronto Stock Exchange and the TSX Venture Exchange.

“Market Capitalization” – the capitalization of the Underlying Interest as calculated by the following formula: the number of outstanding common shares, as determined by the Primary Exchange, multiplied by the closing price on the Primary Exchange.

“North American Volume” – for the purposes of Option eligibility and deficiency this will include trading volume from the Montréal Exchange (MX), The Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSXVN), the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the National Association of Securities Dealers Automated Quotations (NASDAQ).

“Primary Exchange” - The main exchange on which a given stock is listed. The stock may be listed on other exchanges as well; however there can only be one Primary Exchange.

“Underlying Interest”-Stocks meeting the criteria described in this Rule.

“Unit of Trading”-100 shares of the Underlying Interest, unless otherwise designated.

Section B-602 Approval of Underlying Interest

- (1) The Stocks underlying the Options issued by the Corporation shall be approved by the Board based on criteria described in Section B-603 of the Rules.
- (2) No more than one Class of Options shall be approved for any one corporation unless the Board considers it necessary or advisable, as a temporary measure, that there be additional Classes of Options.

Section B-603 Criteria for Eligibility of Stock Options

- (1) In considering whether any Stock should be approved as the Underlying Interest of a Stock Option, the Board, in those circumstances where Section B-605 does not apply, shall ensure that prior to being approved as an Underlying Interest the Stock meets all of the following criteria:
 - (a) the Stock is listed on a Canadian Exchange;
 - (b) the Market Capitalization of the Stock is within the top quartile (25%) of Securities listed on all Canadian Exchanges as of the last trading day of the previous quarter. The specific dollar threshold will be published by the Corporation;

- (c) the monthly North American Volume of the Stock is within the top quartile (25%) of Securities listed on all Canadian Exchanges as of the last trading day of the previous quarter. The specific threshold will be published by the Corporation.

Section B-604 Deficiency Criteria for Stock Options

- (1) Except as provided for in Subsection B-604(2), no new Series of a Class of Stock Options which is already listed may be opened for trading if any one of the following conditions occur with respect to the Underlying Interest:
 - (a) the Stock is no longer listed on a Canadian Exchange;
 - (b) the Market Capitalization of the Stock is below the top third (33%) of Securities listed on all Canadian Exchanges as of the last trading day of the previous quarter. The specific dollar threshold will be published by the Corporation;
 - (c) the monthly North American Volume of the Stock is below the top third (33%) of Securities listed on all Canadian Exchanges as of the last trading day of the previous quarter. The specific threshold will be published by the Corporation.
- (2) In exceptional circumstances and in the interest of maintaining a fair and orderly market or for the protection of investors, the Corporation may agree to clear additional Series of Options with respect to any Underlying Interest which is deficient under one or more of the criteria set forth in Subsection B-604(1).

Section B-605 Procedure for Assessing the Effect of Stock List Changes on Stock Options Eligibility

(1) Acquisition of a Listed Company by a Newly-Established Company

If a newly-established company has acquired a listed company, the trading record and history of the predecessor company may be used to test the options eligibility of the stock of the new company as provided for in Section B-603.

(2) Name Changes

Corporate name changes have no effect on listed issues options eligibility. All statistics and history of the predecessor company continue to apply to the Underlying Interest under the new corporate name.

(3) Substitutional Listings

When a Stock list change which is the result of a merger or acquisition involving the issuance or acquisition of listed shares has occurred, all listed issues connected with the change are reviewed. No decision to change the option status of a listed issue will occur until after the offer or transaction is completed. The general process which applies is as follows:

- (a) (i) it is confirmed by the Corporation that each of the predecessor companies is listed on a Canadian Exchange; or

- (ii) on receipt of the notice of corporate change or following the closing date of a share purchase offer, it is confirmed by the Corporation that at least one predecessor company has Options currently listed on an Exchange, and these Options are not at or past the date where no new series may be listed if they are classified as delistable by the Corporation, nor is the Underlying Interest for these Options classified as deficient according to Section B-604 of the Rules.
- (b) It is confirmed by the Corporation that, prior to the merger or acquisition involving the issuance or acquisition of listed shares, the sum of the Market Capitalization of the predecessor companies exceeds the criteria set out in Paragraph B-604(1)(b) of the Rules.
- (c) It is confirmed by the Corporation that the resultant company is listed on a Canadian Exchange.
- (d) It is confirmed by the Corporation that the resultant company exceeds the criteria set out in Paragraph B-604(1)(b) of the Rules.

(4) **New Shares**

If new shares are created for the purpose of completing a merger or acquisition involving the issuance or acquisition of listed shares, the relationship between the old and new shares will determine if the new shares will be treated either as a substitutional, original or supplementary listing by the Corporation. Generally if the new issue is the only common issue of the company, then the new issue will be treated as a substitutional issue. Otherwise the issue will be treated as an original or supplementary issue by the Corporation.

Section B-606 Good Deliverable Form of Stocks

A certificate representing a Stock shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such certificate would constitute good delivery under the regulations, rules and policies of all of the Exchanges.

Section B-607 Delivery of Stocks After “Ex-Dividend” Date

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.

- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section B-607.

RULE B-7 BOND OPTIONS

This Rule B-7 is applicable only to American Style Options where the Underlying Interest is a class of debt securities issued by the Government of Canada (a “Bond”). Such Options are referred to in this Rule B-7 as “Bond Options”.

Section B-701 Definitions

Notwithstanding Section A-102 for the purpose of Bond Options the following terms shall have the meanings specified:

“Underlying Interest” - Government of Canada Bonds with an outstanding face value at maturity of at least \$500 million.

“Unit of Trading” - CDN \$25,000 face value at maturity.

Section B-702 Exercise Prices

(Deleted)

Section B-703 Bonds Acceptable for Delivery

The Bonds acceptable for delivery upon the exercise of a Bond Option must be of the approved Underlying Interest for that Series of Bond Options and such Bonds shall bear all interest coupons applicable for the period from the last date on which interest was paid on such Bonds to and including the date of maturity of such Bonds. If the Government of Canada issues a new series of Bonds which are indistinguishable from an Underlying Interest insofar as maturity date, rate of interest and dates for the payment of interest are concerned, such new series of Bonds shall be deemed to be the Underlying Interest and shall become acceptable for delivery as of and from the day following the first date on which interest is paid on such new series of Bonds.

RULE B-8 SILVER OPTIONS

This Rule B-8 is applicable only to American Style Options where the Underlying Interest is silver bullion. Such Options are referred to in this Rule B-8 as “Silver Options”.

Section B-801 Definitions

Notwithstanding Section A-102 for the purpose of Silver Options the following terms shall have the meanings specified:

“Underlying Interest” - silver bullion having a fineness of 999 parts pure silver to 1,000 parts precious metal.

“Unit of Trading” - 100 troy ounces.

Section B-802 Exercise Prices

(Deleted 6/92)

Section B-803 Delivery

Notwithstanding the provisions of Section B-404, upon the exercise of a Silver Option the obligation of the assigned Clearing Member shall be satisfied by the delivery of a certificate representing the Underlying Interest meeting the criteria established from time to time by the Corporation.

Section B-804 Currency

All trading and settlement of Silver Options takes place in United States funds. All margin requirements will be calculated in United States funds and converted to Canadian funds at a rate of exchange determined from time to time by the Corporation. All clearing fees and margin in relation to Silver Options will be payable in Canadian Funds.



RULE B-9 INDEX PARTICIPATION UNIT OPTIONS

(Deleted)

RULE B-10 EUROPEAN STYLE INDEX OPTIONS

This Rule B-10 is applicable only to European Style Options where the Underlying Interest is an Index group. Such Options are referred to in this Rule B-10 as “Index Options”.

Section B-1001 Definitions

Notwithstanding Section A-102 for the purpose of European Style Index Options the following terms shall have the meanings specified:

“Aggregate Current Value” - The level of an Index at the opening of trading on the Expiration Date of the Option multiplied by \$1.00 and by the number of Units of Trading.

“Aggregate Exercise Price” - the Exercise Price of an Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Option.

“Call” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Call Exercise Settlement Amount.

“Call Exercise Settlement Amount” - The cash difference when the Aggregate Exercise Price is deducted from the Aggregate Current Value.

“Exercise Settlement Date” - the Business Day following the Expiration Date.

“Expiration Date” - the third Friday of the month.

“Index” - a securities index specified by an Exchange which is determined by the inclusion and relative representation of the Current market prices of a group of securities.

“Put” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Put Exercise Settlement Amount.

“Put Exercise Settlement Amount” - The cash difference when the Aggregate Current Value is deducted from the Aggregate Exercise Price.

“Underlying Interest” - the Index which is the subject of the Option.

“Underlying Security” - any of the securities included in an Index underlying a class of Index Options.

“Unit of Trading” - 100 units.

Section B-1002 Exercise Prices

(Deleted)

Section B-1003 Trade Reporting of Options Transactions

Notwithstanding Subsection B-201(6) each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the

Corporation, in the form prescribed, of any error. Unless such notification is received by the established cut-off hour, the exchange transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

Section B-1004 Expiration Date Exercise Procedure

- (1) European Style Index Options will be listed with American Style Options on the Expiry Report issued on the Saturday following Expiration Date and all in-the-money Long Positions will be automatically exercised in accordance with Section B-307.
- (2) The term “closing price” as used in Section B-307 in reference to the Index underlying any European Style Index Option shall mean the level of the Index at the opening of trading on the Expiration Date as reported to the Corporation by the relevant Exchange. If no level was reported for such Index, the Corporation may determine not to fix a “closing price” for such European Style Index Option. In the event of such a determination, Expiry Reports will not include a daily “closing price” for such European Style Index Option and Clearing Members may exercise such European Style Index Option only by giving affirmative exercise instructions in accordance with Subsections B-307(b) or (e).

Section B-1005 General Rights and Obligations of Clearing Members

Notwithstanding Section B-110, for the purposes of Index Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.

Section B-1006 Adjustments

No adjustments will ordinarily be made in the terms of Index Options in the event that Underlying Securities are added to or deleted from an Index or when the relative weight of one or more Underlying Securities in an Index is changed. However, if the Corporation shall determine in its sole discretion that any such addition, deletion or change causes significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Index Options by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long or Short Positions in these contracts. Determinations with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2).

Section B-1007 Unavailability or Inaccuracy of Aggregate Current Value

- (1) If the Corporation shall determine that the Aggregate Current Value for the Index underlying any series of Index Options (the “affected series”) is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Options of the affected series, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the settlement obligations of exercising and assigned Clearing Members with respect to Index Options of the affected series. At such time as the Corporation determines that the required Aggregate Current Value is available or the Corporation has fixed the Call and Put Exercise Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Option.
 - (b) Fix the Call and Put Exercise Settlement Amounts for exercised contracts of an affected series in accordance with the best information available as to the correct Aggregate Current Value.
- (2) The Aggregate Current Value of an Index as reported by the Exchange specifying such Index shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Aggregate Current Value, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Aggregate Current Value to be used for settlement purposes.

Section B-1008 Delivery and Payment with Respect to Options Exercised

Notwithstanding the provisions of Sections B-403 to B-408 inclusive, for the purposes of Index Options, exercised and assigned Index Options shall be settled in cash at Settlement Time on the Exercise Settlement Date.

Section B-1009 Suspension of a Clearing Member - Exercised Options

- (1) Notwithstanding Section A-408, unless the Corporation stipulates otherwise in a particular case, exercised Index Options to which a suspended Clearing Member is a party shall be closed through the procedures set forth in Sections B-407 and B-408, respectively, except that the Corporation may decide not to buy-in or sell-out. All losses and gains on such buy-ins and sell-outs shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member; provided, however, that all losses on such buy-ins and sell-outs in a Market Maker Account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account.
- (2) The Corporation shall effect settlement pursuant to Section B-1009 with all Clearing Members that have been assigned an exercise notice filed by a suspended Clearing Member or that have filed exercise notices that were assigned to a suspended Clearing Member without regard to such suspension.

RULE B-11 OPTIONS ON GOVERNMENT OF CANADA BOND FUTURES

This Rule B-11 is applicable only to American Style Options where the Underlying Interest is Government of Canada Bond Futures traded on The Montreal Exchange. Such Options are referred to in the Rule B-11 as “Bond Futures Options”.

Section B-1101 Definitions

Notwithstanding Section A-102 for the purpose of Bond Futures Options, the following terms shall have the meaning specified:

“Exercise Price” - the specified price per Unit of Trading at which a position in the Underlying Interest may be assumed upon the exercise of an Option.

“Expiration Date” - the Last Day of Trading.

“Expiration Month” - The calendar month immediately preceding the Option contract month included in the name of the Series of Options.

“Last Day of Trading” - The third Friday of the Expiration Month provided that such Friday is a Business Day and precedes by at least two Business Days the first day on which a Tender Notice may be submitted for the Underlying Interest. Otherwise the Last Day of Trading shall be the Business Day prior to such Friday which precedes by two Business Days the first day on which a Tender Notice may be submitted for the Underlying Interest.

“Option” - a contract which gives the purchasing Clearing Member the right to assume a Long Position (a call) or assume a Short Position (a put) in the Underlying Interest at a specified Exercise Price during a specified time period and which obligates the writing Clearing Member, upon assignment, to assume a Short Position (a call) or assume a Long Position (a put) in the Underlying Interest.

“Underlying Interest” - One (1) \$100,000 face value Government of Canada Bond Futures contract of the specified Futures contract month.

“Unit of Trading” - 1 contract representing the Underlying Interest.

Section B-1102 Expiration Date Exercise Procedure

(1) Section B-307 will apply to Futures Options but the times which relate to each activity are changed to read as follows:

B-307 (a)	At or before 8 a.m. and until the Close of Business;
B-307 (b) (ii)	the Close of Business;
B-307 (f)	between the hours stipulated by the Corporation on each Expiration Date.

(2) The “Closing Price” for Futures Options referred to in Section B-307 shall mean the price of the Underlying Interest at or about the close of trading on the Expiration Date.

Section B-1103 General Rights and Obligations of Clearing Members

- (1) Subject to the provisions of the Rules, a Clearing Member holding a Long Position in a call Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Long Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (2) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to assume a Short Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (3) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a put Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Short Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (4) A Clearing Member holding a Short Position in a put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to assume a Long Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.

Section B-110 does not apply to Futures Options.

Section B-1104 Clearing Fund Deposits

Clearing Members admitted to clear Futures Options shall maintain deposits in both the Options Clearing Fund and the Futures Clearing Fund of the amounts from time to time required by the Rules.

Section B-1105 Exercise Settlement Date

For the purposes of this Rule B-11 and notwithstanding anything else contained in these Rules, the Exercise Settlement Date shall be the Expiration Date.

Section B-1106 Trade Reporting

- (1) Section B-201 will apply to Futures Options. However in addition to a Consolidated Activity Report available on the day after trade, each trade will also be detailed on a Futures Daily Transaction Report available after the close of trading on the trade date.
- (2) Notwithstanding Section B-201 (6) each Clearing Member shall have until one hour and fifteen minutes after the Close of Business on the Expiration Date for an expiring Series of Futures Options to notify the Corporation, in the form prescribed, of any error.

Section B-1107 Random Exercise of Exercise Notices



Section B-305 shall apply to Futures Options but Subsection B-305(3) for Futures Options shall read as follows:

If an Exercise Notice is tendered in accordance with either Paragraph (a) or (b) of Subsection B-301(1) the assignment of such Exercise Notice shall be effective as of the day on which the Exercise Notice was tendered.

Section B-1108 Reporting of Exercises and Assignments

Section B-306 shall apply to Futures Options except that no Options Unsettled Delivery Report shall be issued as all exercised Futures Options result in a Futures position.

Section B-1109 Delivery with Respect to Options Exercised

Rule B-4 Delivery and Payment with Respect to Options Exercised shall not apply to Futures Options.

RULE B-12 GOLD OPTIONS

The Sections of this Rule B-12 are applicable only to European Style Options where the Underlying Interest is gold bullion. Such Options are referred to in this Rule B-12 as “Gold Options”.

Section B-1201 Definitions

Notwithstanding Section A-102, for the purposes of Gold Options, the following terms are as defined:

“Call Exercise Settlement Amount” - an amount equal to 10 times the difference when the Exercise Price is deducted from the Current Value.

“Current Value” - the London, England, PM spot price Gold fixing for one ounce of the Underlying Interest on the last day of trading.

“Exercise Price” - the price per ounce of the Underlying Interest specified in the Option.

“Exercise Settlement Date” - the Business Day following the Expiration Date.

“Put Exercise Settlement Amount” - an amount equal to 10 times the difference when the Current Value is deducted from the Exercise Price.

“Time of Delivery” - means the time specified in Section B-404 by which a Clearing Member must make delivery of, or accept delivery and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

“Underlying Interest” - Fine gold bullion of minimum .995 fineness acceptable for good London, England, delivery.

“Unit of Trading” - 10 troy ounces.

Section B-1202 Exercise Prices

(Deleted)

Section B-1203 Trade Reporting of Options Transactions

Notwithstanding the provisions of Section B-201 (6), each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form prescribed, of any error. Unless such notification is received by the established cut-off hour, the exchange transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

Section B-1204 Exercised Contracts

As the settlement of exercises is in cash, which is included with the daily settlement, Sections A-407, B-407 and B-408 will not apply to European Style Gold Options.

Section B-1205 Expiration Date Exercise Procedure

European Style Gold Options will be listed with American Style Options on the Expiry Report issued on each Expiration Date and all in-the-money Long Positions will be automatically exercised in accordance with Section B-307.

Section B-1206 General Rights and Obligations of Clearing Members

Notwithstanding Section B-110, for the purposes of Gold Options:

- (a) A Clearing Member holding a Long Position in a call Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a put Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.

Section B-1207 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Current Value is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Gold Options, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) suspend the settlement obligations of exercising and assigned Clearing Members with respect to Gold Options. At such time as the Corporation determines that the required Current Value is available or the Corporation has fixed the Call and Put Exercise Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Options.
 - (b) fix the Call and Put Exercise Settlement Amounts for exercised Gold Options in accordance with the best information available as to the correct Current Value.
- (2) The Current Value as reported by the Exchange on which the Gold Option trade shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Current Value, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Current Value to be used for settlement purposes.

Section B-1208 Delivery and Payment with Respect to Options Exercised

Notwithstanding the provisions of Section B-403 to B-408, inclusive, for the purposes of Gold Options:

- (a) exercised and assigned Gold Options shall be settled at Settlement Time on the Exercise Settlement Date; and
- (b) no margin shall be required and no margin credit shall be given in respect of such contracts on such date.

Section B-1209 Currency

All trading and settlement of exercises of Gold Options takes place in United States funds. All margin requirements will be calculated in United States funds and converted to Canadian Funds. All clearing fees and margin in relation to Gold Options will be payable in Canadian Funds.

RULE B-13 OPTIONS ON CANADIAN BANKERS' ACCEPTANCE FUTURES

This Rule B-13 is applicable only to American Style Options where the Underlying Interest is Canadian Bankers' Acceptance Futures traded on The Montreal Exchange. Such Options are referred to in this Rule B-13 as “Canadian Bankers' Acceptance Futures Options”.

Section B-1301 Definitions

Notwithstanding Section A-102, for the purposes of Canadian Bankers' Acceptance Futures Options, the following terms are as defined:

“Exercise Price” - the specified price per Unit of Trading at which a position in the Underlying Interest may be assumed upon the exercise of an Option.

“Expiration Date” - the Last Day of Trading.

“Last Day of Trading” - options trading shall terminate at the same date and time as the underlying futures contract, i.e. at 10:00 a.m. on the second London (U.K.) business day preceding the third Wednesday of the contract month. However, options with an expiry that does not coincide with the expiry of the underlying futures contract shall cease trading at the date and time referred to in the options contract.

“Option” - a contract which gives the purchasing Clearing Member the right to assume a Long Position (in the case of a call) or assume a Short Position (in the case of a put) in the Underlying Interest at a specified Exercise Price during a specified time period and which obligates the Clearing Member holding a Short Position in the Option, upon assignment, to assume a Short Position (in the case of a call) or assume a Long Position (in the case of a put) in the Underlying Interest.

“Underlying Interest” - One Canadian Bankers' Acceptance Futures contract of the specified Futures contract month.

“Unit of Trading” - 1 contract representing the Underlying Interest.

Section B-1302 Expiration Date Exercise Procedure

(1) Section B-307 will apply to Canadian Bankers' Acceptance Futures Options but the times which relate to each activity are changed to read as follows:

B-307 (a)	At or before 8:a.m. and until the Close of Business;
B-307 (b)(ii)	the Close of Business;
B-307 (f)	between the hours stipulated by the Corporation on each Expiration Date

(2) The “closing price” for Canadian Bankers' Acceptance Futures Options referred to in Section B-307 shall mean the final settlement price of the Underlying Interest at or about the close of trading on the Expiration Date.

Section B-1303 General Rights and Obligations of Clearing Members

- (1) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a call Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Long Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (2) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to him of an Exercise Notice in respect of such Option, to assume a Short Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (3) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a put Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Short Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (4) A Clearing Member holding a Short Position in a put Option is obliged, upon the assignment to him of an Exercise Notice in respect of such Option, to assume a Long Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.

Section B-110 does not apply to Canadian Bankers' Acceptance Futures Options.

Section B-1304 Clearing Fund Deposits

Clearing Members admitted to clear Canadian Bankers' Acceptance Futures Options shall maintain deposits in both the Options Clearing Fund and the Futures Clearing Fund of the amounts from time to time required by the Rules.

Section B-1305 Trade Reporting

- (1) Section B-201 will apply to Canadian Bankers' Acceptance Futures Options. However in addition to a Consolidated Activity Report available on the day after trade, each trade will also be detailed on a Futures Daily Transaction Report available after the close of trading on the trade date.
- (2) Notwithstanding Section B-201 (6) each Clearing Member shall have until the Close of Business on the Expiration Date for an expiring Series of Canadian Bankers' Acceptance Futures Options to notify the Corporation, in the form prescribed, of any error.

Section B-1306 Random Assignment of Exercise Notices

Section B-305 shall apply to Canadian Bankers' Acceptance Futures Options but Subsection (3) for Canadian Bankers' Acceptance Futures Options shall read as follows:



If an Exercise Notice is tendered in accordance with either Paragraph (a) or (b) of Subsection B-301(1) the assignment of such Exercise Notice shall be effective as of the day on which the Exercise Notice was tendered.

Section B-1307 Reporting of Exercises and Assignments

Section B-306 shall apply to Canadian Bankers' Acceptance Futures Options except that no Options Unsettled Delivery Report shall be issued as all exercised Canadian Bankers' Acceptance Futures Options result in a Futures position.

RULE B- 14 INSTALMENT RECEIPT OPTIONS

This Rule B-14 is applicable only to American Style Options where the Underlying Interest is Instalment Receipts evidencing shares of a corporation (an “Instalment Receipt”). Such Options are referred to in this Rule B-14 as “Instalment Receipt Options”.

Section B-1401 Definitions

Notwithstanding Section A-102 for the purposes of Instalment Receipt Options the following terms shall have the meanings specified:

- “Instalment Receipt” - An instalment receipt evidencing beneficial ownership of, and the obligation to pay the balance of the purchase price on, a share of a corporation.
- “Underlying Interest” - Instalment Receipts meeting the criteria described in this Rule.
- “Unit of Trading” - 100 units of the Underlying Interest, unless otherwise designated.

Section B-1402 Approval of Underlying Instalment Receipts

- (1) The Instalment Receipts underlying the Instalment Receipt Options shall be approved by the Board following the recommendation of one or more Exchanges. In approving underlying Instalment Receipts, the Board shall give due regard to the following factors:
 - (a) the underlying Instalment Receipts shall be characterized by a large number of outstanding units which are widely held and actively traded;
 - (b) underlying Instalment Receipts shall be duly listed and posted for trading on an Exchange;
 - (c) underlying Instalment Receipts shall meet the requirements set forth in the agreements among the Exchanges and the Corporation.
- (2) No more than one Class of Options shall be approved for each class of Instalment Receipts unless the Board considers it necessary or advisable, as a temporary measure, that there be one or more additional Classes of Options for such class of Instalment Receipts.

Section B-1403 Criteria for Eligibility of Instalment Receipt Options

- (1) In considering whether any Instalment Receipt should be approved as the Underlying Interest of a Instalment Receipt Option, the Board shall ensure that prior to being approved as an Underlying Interest the Instalment Receipt meets all of the following criteria:
 - (a) No less than 10,000,000 Instalment Receipts in the public float are held by persons who are not “insiders” under the securities laws of any of the provinces of Canada.
 - (b) The final prospectus for the Instalment Receipt details that payment for the shares evidenced by the Instalment Receipts is to be made in no more than two (2) instalments.
 - (c) The Market Price of the Instalment Receipt is at least \$5.00 per Instalment Receipt.

- (d) The issuer whose securities are evidenced by the Instalment Receipts should have common shares and, if applicable, non-voting equity shares, subordinate or restricted voting equity shares and preferred shares outstanding that have an aggregate value of \$500,000,000 or more.
- (2) The criteria set forth in Subsection B-1403(1) may be amended from time to time by agreement between the Corporation and the relevant Exchanges.

Section B-1404 Deficiency Criteria for Instalment Receipt Options

- (1) No new Series of a Class of Instalment Receipt Options which is already listed may be opened for trading if any one of the following conditions occur with respect to the Underlying Interest:
 - (a) less than 10,000,000 shares of the class or series evidenced by the Underlying Interest are held by persons who are not “insiders” under the securities laws of any of the provinces of Canada;
 - (b) the Underlying Interest is no longer listed on an Exchange;
 - (c) the issuer of the shares evidenced by the Underlying Interest or one of its significant subsidiaries has defaulted in the payment of any dividend or sinking fund instalment on preferred or common shares, or in the payment of any principal, interest or sinking fund instalment on any indebtedness for borrowed money, or in the payment of rentals under long-term leases, and such default has not been cured within six (6) months of the date on which it occurred;
 - (d) the issuer of the shares evidenced by the Underlying Interest has failed to make timely reports as required by the by-laws or rules of the Canadian exchanges upon which the Underlying Interest is listed; or
 - (e) the issuer whose shares are evidenced by the Underlying Interest has a market capitalization including all common and, if applicable, non-voting, subordinate or restricted voting equity shares and preferred shares, which has been less than \$500,000,000 on a majority of Business Days in the preceding nine-month period.
- (2) In exceptional circumstances (by agreement between the Corporation and the relevant Exchanges) and in the interest of maintaining a fair and orderly market or for the protection of investors, an Exchange may open additional Series of Options with respect to any Underlying Interest which is deficient under one or more of the criteria set forth in Subsection B-1404(1).
- (3) The criteria set forth in Subsection B-1404(1) may be amended from time to time by agreement between the Corporation and the relevant Exchanges.

Section B-1405 Procedure for Assessing the Effect of Listing Changes on Instalment Receipts Options Eligibility

(1) Original or Supplementary Listings

If a newly-established company has acquired a listed company, the trading record and history of the predecessor company may be used to test the options eligibility of the new company.

(2) **Name Changes**

Corporate name changes have no effect on listed issues option eligibility. All statistics and history of the predecessor company continue to apply to the issues under the new corporate name.

(3) **Substitutional Listings**

When a listing change, which is the result of a merger or acquisition involving the issuance or acquisition of listed shares has occurred, all listed issues connected with the change are reviewed. No decision to change the option status of a listed issue will occur until after the merger or acquisition is completed. The general process which applies is as follows:

- (a) On receipt of the notice of corporate change or following the closing date of a share purchase offer, it is confirmed that at least one predecessor company has Instalment Receipt Options currently listed on an Exchange, and these Instalment Receipt Options are not at or past the date where no new series may be listed if they are classified as delistable, nor is the underlying security for these Instalment Receipt Options classified as deficient according to Section B-1404 of the rules of the Corporation.
- (b) On receipt of the notice of corporate change or following the closing date of a share purchase offer, the secretaries of the companies will be requested to confirm that the number of actual and beneficial shareholders and the number of publicly held shares of the surviving company exceeds the option criteria in Section B-1403. No such confirmation is required for an offeror already designated as options eligible.
- (c) It is confirmed that the market price of the Instalment Receipts of the surviving company are trading at, or above, \$5.00 per receipt.
- (d) It is confirmed that, prior to the announcement of the take-over, merger or re-organization, the sum of the market capitalizations (including all common and preferred shares) of the predecessor companies was not less than \$500,000,000.
- (e) It is confirmed that the securities of the resultant company, evidenced by the Instalment Receipts are listed on an Exchange.

Section B-1406 Failure to Deliver

If the Clearing Member required to make delivery under Section B-403 fails to complete such delivery by the Exercise Settlement Date, the Corporation may purchase the undelivered Underlying Interest in the best available market for the account of the receiving Clearing Member. If the Underlying Interest is not available, the Corporation will require the delivering Clearing Member to settle by cash, determined by the closing Market Price on the day of exercise multiplied by the number of units.

Section B-1407 Adjustments in Terms

- (1) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of Instalment Receipt Options, the Unit of Trading, the Exercise Price

and the underlying security, or any of them, with respect to all outstanding Instalment Receipt Options open for trading in that underlying security may be adjusted in accordance with this Section B-1407.

- (2) Subject to Subsection (10) of this Section B-1407, all adjustments made pursuant to this Section B-1407 shall be made by the Adjustments Committee. The Adjustments Committee shall determine whether to make adjustments to reflect particular events in respect of an underlying security, and the nature and extent of any such adjustment, based on its judgement as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of Instalment Receipt Options on the underlying security, the maintenance of a fair and orderly market in Instalment Receipt Options on the underlying security, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the co-ordination with other clearing agencies of the clearance and settlement of transactions in the underlying security. The Adjustments Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustments Committee pursuant to this Section B-1407 shall be within the sole discretion of the Adjustments Committee and shall be conclusive and binding on all investors and not subject to review, other than review by securities and regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- (3) It shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions paid by the issuer of the security evidenced by an Instalment Receipt.
- (4) It shall be the general rule that in the case of any distribution made with respect to securities evidenced by an Instalment Receipt, other than cash distributions subject to Subsection (3) of this Section B-1407, if an adjustment is determined by the Adjustments Committee to be appropriate,
 - (i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per Instalment Receipt of the distributed property, in which event the Unit of Trading shall not be adjusted; or
 - (ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the securities evidenced by the number of Instalment Receipts represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted.

The Adjustments Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section B-1407, have the authority to determine the value of distributed property.

- (5) In the case of any event for which adjustment is not provided in any of the foregoing Subsections of this Section B-1407, the Adjustments Committee may make such adjustments, if any, with respect to the Instalment Receipt Option affected by such event as the Adjustments Committee determines.
- (6) Adjustments pursuant to this Section B-1407 as a general rule shall become effective in respect of Instalment Receipt Options outstanding on the “ex-date” established by the Exchange or Exchanges on which the Underlying Instalment Receipt is traded. In the event that the “ex-date” for an Underlying Instalment Receipt traded on Exchanges differs from one Exchange to the other, the Corporation shall deem the earliest date to be the “ex-date” for the purposes of this Section B-1407.

“Ex-dates” established by any other exchange or exchanges on which an Underlying Instalment Receipt may be traded shall be disregarded.

- (7) It shall be the general rule that:
 - (i) all adjustments of the Exercise Price of an outstanding Instalment Receipt Option shall be rounded to the nearest \$.05, and all adjustments of the unit of trading shall be rounded down to eliminate any fraction; and
 - (ii) if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price shall be further adjusted, to the nearest \$.05, to reflect any diminution in the value of the Instalment Receipt Option resulting from the elimination of the fraction.
- (8) Notwithstanding the general rules set forth in Subsections (3) through (7) of this Section B-1407 or which may be set forth as interpretations and policies under this Section B-1407, the Adjustments Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustments Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustments Committee affirmatively determines to make an exception in a particular case or group of cases.
- (9) The Adjustments Committee shall consist of two designated representatives of each Exchange and one representative of the Corporation. The quorum for transacting business at any meeting of the Adjustments Committee shall be four representatives; one from each Exchange and one from the Corporation. The vote of a majority of the members of the Adjustments Committee in attendance at any meeting shall constitute the determination of the Adjustments Committee. The Adjustments Committee may transact its business by conference telephone. Notwithstanding the foregoing provisions of this Subsection, any representative of the Corporation or of an Exchange may designate any other representative of the Corporation or of such Exchange, respectively, to serve in his place at any meeting of the Adjustments Committee. In the event of such designation, the designee, for the purposes of such meeting, shall have all of the powers and duties under this Section B-1407 of the person designating him. Neither the Corporation nor any Exchange shall designate to serve on the Adjustment Committee, any person, who, to the knowledge of the self-regulatory organization designating such person, is the beneficial holder of a long or short position in Instalment Receipt Options as to which the Adjustment Committee is to make a determination.
- (10) In the event that the Adjustments Committee is unable to determine whether to make an adjustment in any particular case, the matter shall be referred to the Board for a determination.

INTERPRETATIONS AND POLICIES

A cash dividend or distribution on a class of shares in an amount which does not exceed 10% of the market value (as of the close of trading on the trading day prior to the date on which such dividend or distribution is announced) of the class of shares evidenced by the Instalment Receipts (and not the market value of the Instalment Receipts themselves) will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection (3) of this Section B-1407. The Adjustments Committee will determine on a case-by-case basis whether other cash dividends or distributions are “ordinary cash dividends or distributions” or whether they are dividends or distributions for which an adjustment should be made.

Where the Adjustments Committee determines to adjust for a cash dividend or distribution, the adjustment shall be made in accordance with Subsection (6) of this Section B-1407.

Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Adjustments Committee will determine whether an adjustment is appropriate.

Adjustments will not be made to reflect a take-over bid or issuer bid made for the underlying security, whether such offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Instalment Receipt Options ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.

Section B-1408 Delivery of Instalment Receipts After “Ex” Date

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section B-1408.

RULE B-15 SPONSORED OPTIONS

This Rule B-15 is applicable only to the European or American Style Sponsored Options. The Underlying Interest for a Sponsored Option can be an Index or a Stock.

Section B-1501 Definitions

Notwithstanding Section A-102 for the purposes of Sponsored Options the following terms shall have the meanings specified:

“Aggregate Exercise Date Value” – in the case of a Sponsored Option where the Underlying Interest is an Index, is the closing or opening level of the Index (as specified by its contract specifications) on the Exercise Date multiplied by \$1.00 and multiplied by the number of Units of Trading; and, in the case of Sponsored Options where the Underlying Interest is a Stock, is the closing or opening price of the Stock on the Exercise Date multiplied by the number of Units of Trading;

“Aggregate Exercise Price” – the Exercise Price of a Sponsored Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Sponsored Option;

“Call Exercise Settlement Amount” – The cash difference when the Aggregate Exercise Price is deducted from the Aggregate Exercise Date Value and multiplied by the Foreign Exchange Rate;

“Delivery” – physical delivery made in accordance with the delivery procedure of CDS or any other Central Securities Depository authorised by the Corporation on the Exercise Settlement Date, or on a day as otherwise determined by the Corporation;

“Exercise Date” – with respect to any particular Sponsored Option, the date on which the said Option is exercised pursuant to Section B-1506;

“Exercise Settlement Date” – the date specified by Bourse de Montréal Inc.;

“Expiration Date” – the date specified by Bourse de Montréal Inc.;

“Foreign Exchange Rate” – the designated closing CAN\$/foreign currency exchange spot rate as determined and reported by Bourse de Montréal Inc.;

“Put Exercise Settlement Amount” – The cash difference when the Aggregate Exercise Date Value is deducted from the Aggregate Exercise Price and multiplied by the Foreign Exchange Rate;

“Recognized Exchange” – a recognized exchange according to the definition in Rule One of Bourse de Montréal Inc.;

“Sponsor” – an entity approved by Bourse de Montréal Inc. for the purpose of sponsoring Sponsored Options;

“Sponsored Option” – an Option for which a Sponsor is the sole authorised writer;

“Trading Volume” – for the purposes of determining the eligibility or non eligibility of an underlying interest to a Sponsored Option, the trading volume will include volume from all the Recognized Exchanges on which the Underlying Interest is traded;

“Underlying Interest” – Stocks and Indices meeting the criteria described in this Rule.

Section B-1502 Eligibility Conditions of a Sponsor

In order for an institution to act as a Sponsor it must satisfy the conditions established by Bourse de Montréal Inc. for a Sponsor of Sponsored Options and any other criteria established by the Corporation from time to time.

Section B-1503 Approval of Underlying Interest

- (1) The Stocks underlying the Sponsored Options issued by the Corporation shall be approved by the Board based on criteria described in Section B-1504 of the Rules.
- (2) Except for Sponsored Options, only one Class of Options shall be approved for any one corporation.

Section B-1504 Eligibility Conditions for Underlying Interests of Sponsored Options

In considering whether any Stock should be approved as the Underlying Interest of a Sponsored Option, the Corporation, in those circumstances where Section B-1505 does not apply, shall ensure that prior to being approved as an Underlying Interest the Stock meets all of the following criteria:

- (1) For Sponsored Options where the Underlying Interest is a Stock issued by a Canadian corporation, the Stock meets the Options eligibility criteria described in Section B-603.
- (2) For Sponsored Options where the Underlying Interest is a Stock issued by a non-Canadian entity, the Stock:
 - (i) trades on a Recognized Exchange; and
 - (ii) there are derivatives listed on a Recognized Exchange on that Underlying Interest.
- (3) For Sponsored Options where the Underlying Interest is an Index, the Index or the Index contract must be approved by Bourse de Montréal Inc.

Section B-1505 Procedure for Assessing the Effect of Stock List Changes on Sponsored Options Eligibility

Section B-605 will apply to Sponsored Options where the Underlying Interest is a stock issued by a Canadian entity.

Section B-1506 Exercise of Sponsored Options

Issued and unexpired Sponsored Options may be exercised only in the following manner:

- (i) on the Expiration Date all options will be exercised on a case by case basis in accordance with the contract specifications.
- (ii) in the case of American-style options, on a Business Day other than the Expiration Date a Clearing Member desiring to exercise an Option may tender an Exercise Notice to the Corporation until the Close of Business on such Business Day.

Section B-1507 Trade Reporting of Options Transactions

Notwithstanding Subsection B-201(6) for Sponsored Options each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which a transaction took place to notify the Corporation, in the form prescribed, of any error in the report provided to it under Subsection B-201(1). Unless such notification is received by the established deadline, transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transactions.

Section B-1508 Adjustments

- (1) Section A-902 as applicable to Derivative Instruments will apply to Sponsored Options where the Underlying Interest is an equity related product.
- (2) No adjustments will ordinarily be made in the terms of Sponsored Options where the Underlying Interest is an Index in the event that Underlying Securities are added to or deleted from an Index or when the relative weight of one or more Underlying Securities in an Index is changed. However, if the Corporation determines in its sole discretion that any such addition, deletion or change could cause significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Sponsored Options by taking such actions as the Corporation in its sole discretion deems fair to the Clearing Member holding Long and Short Positions in the contracts. Determination with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2).

Section B-1509 Unavailability or Inaccuracy of Aggregate Exercise Date Value

- (1) If the Corporation determines that the Aggregate Exercise Date Value for the Index underlying any series of Sponsored Options (the “affected series”) is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Sponsored Options of the affected series, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the settlement obligations of exercising and assigned Clearing Members with respect to Sponsored Options of the affected series. At such time as the Corporation determines that the required Aggregate Exercise Date Value is available or the Corporation has fixed the Call and Put Exercise Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Sponsored Option.

- (b) Fix the Call and Put Exercise Settlement Amounts for exercised contracts of an affected series in accordance with the best information available as to the correct Aggregate Exercise Date Value.
- (2) The Aggregate Exercise Date Value of an Index as reported by Bourse de Montréal Inc. shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Aggregate Exercise Date Value, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Aggregate Exercise Date Value to be used for settlement purposes.

A) Section B-1510 through B-1511 inclusive apply to Sponsored Options Settled through Cash Settlement

Section B-1510 General Rights and Obligations of Clearing Members

Notwithstanding Section B-110, for the purposes of cash settled Sponsored Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.

Section B-1511 Payment with Respect to Cash Settled Sponsored Options Exercised

Notwithstanding the provisions of Sections B-403 to B-408 inclusive, for the purposes of Sponsored Options, exercised and assigned Sponsored Options shall be settled in cash at Settlement Time on the Exercise Settlement Date.

B) Section B-1512 through B-1513 inclusive apply to Sponsored Options Settled through Physical Delivery

Section B-1512 Good Deliverable Form of Stocks

A Stock held at CDS or any other depository approved by the Corporation shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such Stock would constitute good delivery under the regulations, rules and policies of Bourse de Montréal Inc.

Section B-1513 Delivery of Stocks After “Ex” Date

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section B-1513.

RULE B-16 CURRENCY OPTIONS

This Rule B-16 is applicable only to European Style Options where the Underlying Interest is a currency. Such Options are referred to in this Rule B-16 as “Currency Options”.

Section B-1601 Definitions

Notwithstanding Section A-102 for the purpose of European Style Currency Options the following terms shall have the meanings specified:

“Aggregate Current Value” - The Bank of Canada noon rate expressed in Canadian cents for one unit of foreign currency on the Expiration Date of the Option multiplied by the number of Units of Trading.

“Aggregate Exercise Price” - the Exercise Price of an Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Option.

“Call” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Call Exercise Settlement Amount.

“Call Exercise Settlement Amount” - The cash difference when the Aggregate Exercise Price is deducted from the Aggregate Current Value.

“Put” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Put Exercise Settlement Amount.

“Put Exercise Settlement Amount” - The cash difference when the Aggregate Current Value is deducted from the Aggregate Exercise Price.

“Exercise Settlement Date” - the Business Day following the Expiration Date.

“Expiration Date” - the third Friday of the month.

“Underlying Interest” - The foreign currency which is the subject of the option.

“Unit of Trading” - 10,000 units, or a multiple thereof, of foreign currency.

Section B-1602 Trade Reporting of Options Transactions

Notwithstanding Subsection B-201(6) each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form prescribed, of any error, with the exception of the Expiration date. On Expiration date, the corporation must receive this notification 1.5 hours prior to the Close of Business on that Business Day. Unless such notification is received by the established cut-off hour, the exchange transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

Section B-1603 Expiration Date Exercise Procedure

- (1) European Style Currency Options will be listed with American Style Options on the Expiry Report issued on the Saturday following Expiration Date and all in-the-money Long Positions will be automatically exercised in accordance with Section B-307.
- (2) The term “closing price” as used in Section B-307 in reference to the currency underlying any European Style Currency Option shall mean the Bank of Canada noon rate expressed in Canadian cents on the Expiration Date as reported to the Corporation by the relevant Exchange.

Section B-1604 General Rights and Obligations of Clearing Members

Notwithstanding Section B-110, for the purposes of Currency Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.



CANADIAN DERIVATIVES CLEARING CORPORATION

PART C – FUTURES

RULE C-1 CLEARING OF EXCHANGE TRANSACTIONS RESPECTING FUTURES

The provisions of this Part C shall apply only to Exchange Transactions which are trades in Futures issued by the Corporation, pursuant to these rules and to those Clearing Members who are required to make a base deposit to the Clearing Fund for Futures clearing as set out in Paragraph A-601(2)(b).

Section C-101 Responsibility of Members for Exchange Transactions

Every Clearing Member shall be responsible for the clearance of its own Exchange Transactions and of the Exchange Transactions of each Exchange member or non-member which has agreed with the Clearing Member that its transactions will be cleared by such Clearing Member. A copy of such clearing agreement shall be provided to the Corporation upon its request.

Section C-102 Maintenance of Accounts

- (1) Every Clearing Member shall establish and maintain with the Corporation the following accounts:
 - (a) One or more Firm Account(s) which shall be confined to Firm Transactions of such Clearing Member;
 - (b) A separate Market Maker Account for each Market Maker employed or sponsored by such Clearing Member; and
 - (c) One or more Client Account(s), which shall be confined to the Transactions of its Clients, if the Clearing Member conducts business with the public in Futures.

Section C-103 Agreement Regarding Accounts

Every Clearing Member agrees as follows:

- (1) In respect of any Firm Account:
 - (a) the Corporation shall have a first priority security interest and hypothec on all Long Positions, Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for all of the Clearing Member's obligations to the Corporation;
 - (b) the Corporation shall have the right to net all Opening Sell Transactions and Closing Sell Transactions against all Opening Buy Transactions and all Closing Buy Transactions with respect to a same Series of Futures effected in such account, whether or not Transactions are denominated in the same currency; and
 - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation, at any time, without prior notice to the Clearing Member.

- (2) Each Market Maker Account shall be confined to the Exchange Transactions of the Market Maker for which it is established. In addition, a Clearing Member who is registered with an Exchange as a Market Maker may maintain a separate Market Maker Account which shall be confined to such Clearing Member's Exchange Transactions in its capacity as a Market Maker.
- (3) Each Market Maker shall enter into an agreement with the Clearing Member which shall provide that the Market Maker agrees with the Clearing Member and the Corporation that:
 - (a) the Corporation shall have a first priority security interest and hypothec on all Long Positions, Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of all Exchange Transactions maintained in such account and Tender Notices assigned to such account;
 - (b) the Corporation shall have the right to net all Opening Sell Transactions and Closing Sell Transactions against all Opening Buy Transactions and Closing Buy Transactions with respect to a same Series of Futures effected in such account, whether or not Transactions are denominated in the same currency; and
 - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation in respect of all Exchange Transactions maintained in such account and Tender Notices assigned to such account, at any time, without prior notice to the Market Maker or the Clearing Member.
- (4) Notwithstanding Subsection A-701(3), in respect of any Client Account:
 - (a) the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of all Transactions maintained in such account and Tender Notices assigned to such account;
 - (b) the Corporation shall have the right to net all Opening Sell Transactions and Closing Sell Transactions against all Opening Buy Transactions and Closing Buy Transactions with respect to a same Series of Futures effected in such account, whether or not Transactions are denominated in the same currency; and
 - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation with respect to all the Transactions in such account, at any time, without prior notice to the Clearing Member or the Clients.
- (5) Each Clearing Member is responsible for all obligations owed to the Corporation in respect of every account opened by or in respect of such Clearing Member.
- (6) Amounts standing to the credit of a Clearing Member's account may be applied by the Corporation towards the payment of any sum whatsoever due by the Clearing Member to the Corporation, subject to Section C-109.

Section C-104 Novation

Through novation, the Corporation acts as central counterparty between each Clearing Member.

All Transactions that are submitted to the Corporation are registered in the name of the Clearing Member. Upon acceptance of the Transaction, novation occurs and the initial Transaction is replaced by two different transactions between the Corporation and each Clearing Member involved in the Transaction.

Each Clearing Member looks to the Corporation for the performance of the obligations under a Transaction and not to another Clearing Member. The Corporation shall be obligated to the Clearing Member in accordance with the provisions of these Rules. Furthermore, each client of a Clearing Member looks solely to the Clearing Member for performance of the obligations and not to the Corporation.

Section C-105 Futures Sub-Accounts Consolidated Activity Report

- (1) The acceptance of every Exchange Transaction by the Corporation shall be subject to the condition that the Exchange on which such Exchange Transaction occurred shall have provided the Corporation with the following trade information respecting such Exchange Transaction:
 - (a) the identity of the buying Clearing Member and the selling Clearing Member and the accounts in which the transaction is effected;
 - (b) the Series of Futures;
 - (c) the price of the Future;
 - (d) the number of Futures;
 - (e) in the case of a transaction in a Client Account, whether it is an opening or closing transaction; and
 - (f) such other information as may be required by the Corporation.

In the event any transaction is rejected as herein provided, the Corporation shall promptly notify the Clearing Member and all other Clearing Members involved.

- (2) Following the receipt by the Corporation of the information referred to in Subsection (1) with respect to each Exchange Transaction effected by a Clearing Member in a day, the Corporation shall produce a Futures Sub-Accounts Consolidated Activity Report with respect to each account of a Clearing Member containing the following information:
 - (a) the incoming Long Positions and Short Positions;
 - (b) the prior day's trades;
 - (c) the position changes;
 - (d) the closing Long Positions and Short Positions; and

- (e) the net dollar gain or net dollar loss for the day.

Section C-106 Obligations of the Corporation

An Exchange Transaction shall, subject to Section C-105, be deemed to have been accepted by the Corporation at the time the trade information in respect of such Exchange Transaction is received by the Corporation from the Exchange. Notwithstanding the foregoing, the Corporation may reject any Exchange Transaction submitted for clearing by a Non Conforming Member. Upon the acceptance of an Exchange Transaction by the Corporation, the rights of the Clearing Members to such transaction shall be solely against the Corporation and the Corporation shall be obliged solely to the Clearing Members in accordance with the provisions of the Rules. Upon acceptance, the Corporation shall be obligated as follows:

- (a) in an Opening Buy Transaction, the Corporation shall be obligated to increase the purchasing Clearing Member's Long Position of such series in the account in which the Exchange Transaction was effected by the number of Futures purchased in such Exchange Transaction;
- (b) in an Opening Sell Transaction, the Corporation shall be obligated to increase the selling Clearing Member's Short Position of such series in the account in which the Exchange Transaction was effected by the number of Futures sold in such Exchange Transaction;
- (c) in a Closing Buy Transaction, the Corporation shall be obligated to reduce the purchasing Clearing Member's Short Position of such series in the account in which the Exchange Transaction was effected by the number of Futures purchased in such transaction;
- (d) in a Closing Sell Transaction, the Corporation shall be obligated to reduce the selling Clearing Member's Long Position of such series in the account in which the Exchange Transaction was effected by the number of Futures sold in such transaction.

Section C-107 Netting of Open Long Positions and Short Positions

- (1) When any Clearing Member is long or short any Futures and desires to close out such position, he shall sell, in the case of a Long Position, and buy, in the case of a Short Position, the same quantity of the same Series of Futures.
- (2) A Long Position and a Short Position in the same Series of Futures in a particular Firm Account or particular Multi-Purpose Account shall be automatically netted in such account by the Corporation.
- (3) A Long Position or a Short Position in the same Series of Futures in a Client Account (excluding any Netted Client Account) shall be netted only if the Clearing Member informs the Corporation specifically that one is a closing transaction for another.

Section C-108 General Rights and Obligations of Clearing Members

- (1) Subject to the provisions of the Rules, a Clearing Member holding a Short Position has the obligation, commencing at the time of acceptance of the Future by the Corporation pursuant to this Rule C-1, to deliver or pay as directed by the Corporation as the aggregate Settlement Amount the

amount or value of the Underlying Interest represented by such Future, all in accordance with the regulations, rules and policies of the Exchanges and these Rules.

- (2) A Clearing Member holding a long Futures position is obligated, upon the assignment to the Clearing Member of a Tender Notice in respect of such Future, to pay the aggregate Settlement Amount against delivery of the amount or value of the Underlying Interest represented by such Future, all in accordance with the regulations, rules and policies of the Exchanges and these Rules.

Section C-109 Payment of Credit Balances

- (1) In the event that a Clearing Member fails to pay any amount due with respect to any Future by Settlement Time, the Corporation may liquidate Transactions in the relevant account and apply the proceeds thereof to the payment of such debit balance or apply any Margin Deposits of the Clearing Member; provided, however, the Corporation shall not apply Margin Deposits with respect to a Client Account for the payment of any amount owing on Transactions in any account other than the relevant Client Account, and further, the Corporation shall not apply any Margin Deposits with respect to a Market Maker Account for the payment of any amount owing on Transactions in any account other than that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation may without distinction apply the Clearing Member's Margin Deposit to offset any amounts due by the Clearing Member with respect to the relevant Exchange Transaction regardless of the account to which it is booked.
- (2) If a Clearing Member is late in making a payment at Settlement Time, the Corporation shall impose fines and may deem that Clearing Member a Non-Conforming Member, in accordance with Section 7 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.

Section C-110 Long Positions

The Long Position of a Clearing Member in a Series of Futures in a particular account will be created upon the Corporation's acceptance of an Opening Buy Transaction of one or more Futures of such series in such account. The amount of such Long Position shall be the number of Futures so purchased and accepted, and such Long Position shall remain in force thereafter unless and until changed in accordance with the following:

- (a) the Long Position shall be increased by the number of Futures of such Series of Futures which are the subject of Opening Buy Transactions in such account which are accepted by the Corporation;
- (b) the Long Position shall be reduced by the number of Futures of such series which are the subject of Tender Notices assigned to the Clearing Member for such account;
- (c) the Long Position shall be reduced by the number of Futures of such series which are the subject of Closing Sell Transactions in such account which are accepted by the Corporation;
- (d) the Long Position shall be increased by the number of Long Positions of such Series of Futures transferred to such account, with the consent of the Clearing Member and the

Corporation, from another account of the Clearing Member or from another Clearing Member;

- (e) the Long Position shall be reduced by the number of Long Positions of such Series of Futures transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member; and
- (f) the Long Position may be closed out or transferred by the Corporation in accordance with these Rules, including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.

Section C-111 Short Positions

The Short Position of a Clearing Member in a Series of Futures in a particular account will be created upon the Corporation's acceptance of such Clearing Member's Opening Sell Transaction in such account in respect of one or more Futures of such series. The amount of such Short Position shall be the number of such Futures involved in such transaction, and the Short Position shall remain in force from day to day thereafter unless and until changed in accordance with the following:

- (a) the Short Position shall be increased by the number of Futures of such series which are the subject of Opening Sell Transactions in such account and accepted by the Corporation;
- (b) the Short Position shall be reduced by the number of Futures of such series for which the Clearing Member files a Tender Notice with the Corporation;
- (c) the Short Position shall be reduced by the number of Futures of such series which are the subject of Closing Buy Transactions in such account which are accepted by the Corporation;
- (d) the Short Position shall be increased by the number of Futures of such series transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
- (e) the Short Position shall be reduced by the number of Futures of such series transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member; and
- (f) the Short Position may be closed out or transferred by the Corporation in accordance with these Rules, including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.

Section C-112 Agreements of a Selling Clearing Member in an Opening Sell Transaction

The selling Clearing Member in an Opening Sell Transaction agrees with the Corporation that:

- (a) upon the Corporation's acceptance of such transaction, the Short Position of the Clearing Member in the account in which the transaction is effected shall be created or increased, and subsequently maintained, in accordance with Section C-111;
- (b) so long as such Short Position is thereafter maintained, the selling Clearing Member shall make all required margin payments in accordance with these Rules; and
- (c) in the event that such Clearing Member submits a Tender Notice in respect of such Short Position, the Clearing Member will meet its obligations as specified in Section C-108.

Section C-113 Agreements of a Buying Clearing Member in an Opening Buy Transaction

The buying Clearing Member in an Opening Buy Transaction agrees with the Corporation that:

- (a) upon the Corporation's acceptance of such transaction, the Long Position of the Clearing Member in the account in which the transaction is effected shall be created or increased and subsequently maintained in accordance with Section C-110;
- (b) so long as such Long Position is thereafter maintained, the buying Clearing Member shall make all required margin payments in accordance with these rules; and
- (c) in the event that any Tender Notice is assigned to such Clearing Member, it shall meet its obligations as specified in Section C-108.

Section C-114 Closing Transactions

- (1) A Clearing Member shall not effect a closing transaction in respect of a Long Position in a series of Futures in an account unless, at the time of such transaction, such Clearing Member has a Long Position in such account for at least the number of Futures of that series involved in such transaction.
- (2) A Clearing Member shall not effect a closing transaction in respect of a Short Position in a Series of Futures in an account unless, at the time of such transaction, such Clearing Member has a Short Position in such account for at least the number of Futures of that series involved in such transaction.
- (3) The Clearing Member in a closing transaction agrees that, upon the Corporation's acceptance of such transaction, the Corporation shall reduce the Clearing Member's Long or Short Position, as the case may be, in the account through which the transaction was effected by the number of Futures involved.

RULE C-2 TRADE REPORTING

Section C-201 Trade Reporting

- (1) On the morning of the following Business Day, the Corporation shall issue to each Clearing Member who engaged in one or more Exchange Transactions in Futures or who clears for another Exchange Member who engaged in one or more Exchange Transactions in Futures, as reported to the Corporation by an Exchange, a report (“Futures Sub-Accounts Consolidated Activity Report”), covering each Exchange Transaction in Futures made on such Exchange during such previous Business Day and cleared through a Clearing Member. The report shall show for each transaction:
 - (a) the identity of the purchasing Clearing Member and the selling Clearing Member and the account in which the transaction was effected;
 - (b) the Class and Series of these Futures;
 - (c) the price of the Future;
 - (d) the number of Futures;
 - (e) whether it is a buy or sell transaction;
 - (f) in the case of a transaction in a Client Account, whether it is an opening or closing transaction; and
 - (g) such other information as may be required by the Corporation.
- (2) The Corporation shall add to the Futures Sub-Accounts Consolidated Activity Report with respect to each account of a Clearing Member the following:
 - (a) the incoming positions;
 - (b) the prior day's trades;
 - (c) the position changes;
 - (d) the closing positions; and
 - (e) the net dollar gain or net dollar loss for the day.
- (3) It shall be the responsibility of each Clearing Member to ensure that the Futures Sub-Accounts Consolidated Activity Report is correct. If errors exist it shall be the further responsibility of each Clearing Member where possible to reconcile such errors with the Clearing Member on the opposite side of the Exchange Transaction. If the difference cannot be reconciled, the trade must be reported to the Corporation as a rejected trade by both Clearing Members participating in it.
- (4) Each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form

prescribed, of any error. Unless such notification is received by the established cut-off hour, and unless the correction of such error is not rejected by the Corporation which is entitled to do so if it deems appropriate in its sole discretion, the Exchange Transactions accepted by the Corporation and as contained in the Futures Sub-Accounts Consolidated Activity Report shall be final and binding upon the Clearing Members reported as parties to such transactions.

- (5) Each Clearing Member shall be responsible to the Corporation in respect of each Exchange Transaction in Futures reported to the Corporation by an Exchange in which such Clearing Member is identified as a purchasing Clearing Member or selling Clearing Member whether or not such Exchange report was correct unless the Corporation is notified of any errors in compliance with this Section C-201.
- (6) Each Clearing Member shall be responsible for the prompt reporting to the Corporation of any subsequent information, relating to the trade data listed in Subsection C-201(1), which becomes known and which will change the positions of that Clearing Member as recorded by the Corporation.

RULE C-3 SETTLEMENT

Section C-301 Settlement Price

The Settlement Price of a Series of Futures for each day shall be the amount determined by the Exchange on which the Future trades taking into account the closing prices of the series for that day and, where there is not a closing price for that day, the average of the closing bid and asked prices of that series for that day and such other information as the Exchange considers relevant.

Section C-302 Settlement of Gains and Losses

- (1) The gain or loss on a Futures position which was opened on that Business Day shall be the difference between the Trade Price and the Settlement Price of that Series of Futures for that day.
- (2) The gain or loss on a Futures position which was both opened and closed on that Business Day shall be the difference between the two Trade Prices.
- (3) The gain or loss on a Futures position which was opened on a previous Business Day shall be the difference between the Settlement Price of that Series of Futures for the immediately preceding Business Day and the Settlement Price of that Series of Futures for that day.

Section C-303 Advance Call for Settlement of Losses

If the market conditions or price fluctuations are such that the Corporation deems it necessary, it may call upon any Clearing Member which in its opinion is affected to deposit with the Corporation by such time as it shall specify, a certified cheque, bank transfer or wire transfer of funds, for the amount of funds that it estimates will be needed to meet such losses as the Corporation considers may be necessary or advisable. Credit shall be given to the Clearing Member for all such funds on the following Business Day.



RULE C-4 MARGIN REQUIREMENTS

(Incorporated in Rule A-7)

RULE C-5 DELIVERY OF UNDERLYING INTEREST OF FUTURES

Section C-501 Definitions

Notwithstanding Section A-102 for the purposes of Delivery of Underlying Interest of Futures the following terms shall have the following meanings respectively:

“Security Funds” – means any additional deposit(s) by a Clearing Member required by the Corporation to be placed with the Corporation to ensure performance of a Clearing Member's obligations; and

“Time of Delivery” – means the time by which a Clearing Member must make delivery of, or accept delivery and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

Section C-502 Delivery Through the Corporation

Unless otherwise specified by the Corporation, delivery of the Underlying Interest and payment therefor shall be made through the Corporation pursuant to the forms and procedures prescribed by it, having regard to the Contract Specifications and the regulations, rules and policies of the Exchange on which it is traded.

Section C-503 Submission of Tender Notice

- (1) A Clearing Member acting on behalf of the seller of a Future may, subject to the Contract Specifications and the regulations, rules and policies of the Exchange on which it is traded, make delivery of the Underlying Interest which is the subject of the Future. A Clearing Member desiring to make delivery shall submit to the Corporation a Tender Notice in such form and containing such information as the Corporation may prescribe. Every submission of a Tender Notice in accordance herewith shall be irrevocable.
- (2) Every Clearing Member holding a Short Position in a series of Futures at the Close of Business on the last day of trading in such series of Futures shall immediately tender a Tender Notice in respect of such Short Position.
- (3) Where the day of submitting a Tender Notice or the day of delivery is a holiday, the Corporation shall determine the day on which a Tender Notice may be submitted.
- (4) If a Clearing Member fails to deliver a Tender Notice as required by these Rules, the Corporation will submit a Tender Notice on behalf of that Clearing Member.

Section C-504 Acceptance of Tender Notice

A Tender Notice properly submitted to the Corporation in accordance with Section C-503 shall be accepted by the Corporation for assignment at the end of such Business Day.

Section C-505 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 permits Tender Notices to be tendered, in accordance with the

Corporation's procedures of random selection, to Clearing Members with open Long Positions as of the close of trading on the 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.

Section C-506 Notification of Tender and Assignment

The Corporation will issue a Futures Tenders and Assignments Report on the following Business Day to each Clearing Member who submitted, or on whose behalf was submitted, a Tender Notice that was assigned and to each assigned Clearing Member. Such Report shall identify the delivering Clearing Member, the assigned Clearing Member, the quantity and description of the Underlying Interest to be delivered, the delivery date, the Settlement Amount and the account.

Section C-507 Assignment of Tender Notices to Customers

Each Clearing Member shall establish fixed procedures for the allocation of Tender Notices assigned to it in respect of a Long Position in the Clearing Member's Client Account. The allocation shall be on a basis that is fair and equitable to the Clearing Member's clients and consistent with the regulations, rules and policies of the Exchange on which the Future is traded. Such allocation procedures and any changes thereto shall be reported to the Corporation on request.

Section C-508 Restriction on Allocation

No Clearing Member shall permit, unless there is no alternative, the allocation of a Tender Notice in respect of a Long Position that was opened on the day of such allocation.

Section C-509 Evidence of Intent to Deliver

Prior to the last day of trading, each Clearing Member shall require evidence for each account on its books that all positions in Futures which will not be offset on the last day of trading will be completed by delivery. If a customer of a Clearing Member is willing or unable to provide such evidence, the Clearing Member must liquidate the position on or before the last day of trading.

Section C-510 Obligation to Deliver

The Clearing Member making delivery of an Underlying Interest pursuant to a Future (the "delivering Clearing Member") shall deliver the Underlying Interest which is the subject of the Tender Notice in Good Deliverable Form against receipt of payment. Delivery of the Underlying Interest, when it is an Acceptable Security, will be subject to netting as described in [Section Paragraph A-801\(2\)\(d\)](#) and shall be made at such times as is provided in the rules of the Central Securities Depository and these Rules. Delivery of the Underlying Interest, when it is not an Acceptable Security, will be subject to Sections C-512 to C-521 and shall be made at such time as is provided in the regulations, rules and policies of the Exchanges and these Rules.

Section C-511 Obligation to Take Delivery

A Clearing Member who has been assigned to take delivery of an Underlying Interest pursuant to a Future (the “assigned Clearing Member”) shall accept delivery of the Underlying Interest which is the subject of the Future in Good Deliverable Form. Payment of delivery of the Underlying Interest, when it is an Acceptable ~~Securities~~Security, will be subject to netting as described in ~~Section~~Paragraph A-801(2)(c) and shall be made at such times as is provided in the rules of the Central Securities Depository and these Rules. Payment of delivery of the Underlying Interest, when it is not an Acceptable Security, will be subject to Sections C-512 to C-521 and shall be made at such time as is provided in regulations, rules and policies of the Exchanges and these Rules.

Section C-512 Failure to Deliver

If the Clearing Member required to make delivery of an Underlying Interest other than an Acceptable Security under Section C-510 fails to complete such delivery by the time required for delivery in the regulations, rules and policies of the Exchanges and these Rules (a “Failed Delivery”), the delivering Clearing Member will become a Non-Conforming Member. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect delivery to or otherwise settle with, the assigned Clearing Member. Without limiting the generality of the foregoing, the Corporation may acquire and deliver the Underlying Interest to the assigned Clearing Member, reimburse or pay to the assigned Clearing Member any additional financial costs incurred as a result of the assigned Clearing Member acquiring the Underlying Interest on the open market, enter into an agreement with the assigned Clearing Member and the delivering Non-Conforming Member relating to the failed delivery, and/or take such other action as the Corporation may, in its absolute discretion, deem appropriate or necessary in order to ensure that a Non-Conforming Member’s obligations are fulfilled. In the event the cost of effecting delivery to, or otherwise settling with, the assigned Clearing Member exceeds the settlement price at which the delivery was to be made, the Non-Conforming Member shall be liable for and shall promptly pay to the Corporation or the assigned Clearing Member as the case may be, the amount of such difference.

Section C-513 Failure to Accept Delivery

If the Clearing Member who is assigned a Tender Notice with respect to delivery of an Underlying Interest other than an Acceptable Security under Section C-511 shall fail to accept delivery and make payment of the Settlement Amount to the delivering Clearing Member, or shall refuse to receive the Underlying Interest, or shall fail to pay the Settlement Amount for all the Underlying Interest or the documents of conveyance in respect thereof delivered to it in Good Deliverable Form in fulfilment of a Tender Notice, and such refusal or failure shall continue beyond the time required for delivery in the regulations, rules and policies of the Exchanges and these Rules, the assigned Clearing Member shall become a Non-Conforming Member. The Corporation may take or cause, authorize or require to be taken whatever steps it deems necessary to effect payment to, or otherwise to settle with, the delivering Clearing Member. Without limiting the generality of the foregoing, the Corporation or the delivering Clearing Member may, upon notice to the assigned Non-Conforming Member and, if such action is taken by the delivering Clearing Member, to the Corporation, sell out in the best available market, for the amount and liability of the assigned Non-Conforming Member, all or any part of the undelivered Underlying Interest. The assigned Non-Conforming Member shall be liable for and shall promptly pay to the delivering Clearing Member or the Corporation as the case may be, the difference, if any, between the Settlement Amount of the undelivered Underlying Interest and the price at which such Underlying Interest was sold-out.

Section C-514 Penalties and Restrictions

- (1) The Board shall set by resolution, from time to time, the penalties payable in the event that a Clearing Member fails to make delivery of an Underlying Interest other than an Acceptable Security or fails to accept delivery thereof and make the corresponding payment when required to do so in accordance with the Rules; provided, however, that the penalty for any single failure shall not exceed \$250,000. The amount of these penalties shall be in addition to any other sanctions that may be imposed by the Corporation under the Rules, including pursuant to Rule A-4 or A-5. If a Clearing Member fails to make delivery of an Underlying Interest other than an Acceptable Security or fails to accept delivery thereof and make the corresponding payment, as required under the Rules, such penalty shall be assessed against it commencing as of the Time of Delivery and continuing until the Non-Conforming Member's obligations to the Corporation are fulfilled or the Non-Conforming Member is suspended, whichever is the sooner.
- (2) Where at the Time of Delivery a delivering Clearing Member fails to make delivery of an Underlying Interest other than an Acceptable Security or an assigned Clearing Member fails to accept delivery thereof and make the corresponding payment, and becomes a Non-Conforming Member the Non-Conforming Member's clearing activities shall immediately be restricted to closing transactions as defined in these Rules, unless the Corporation determines that it is not necessary to impose such restriction, in whole or in part. This restriction shall continue until the Non-Conforming Member deposits Security Funds with the Corporation in accordance with Sections C-516 and C-517, or, if such funds are not deposited, until otherwise determined by the Chairperson of the Board and any two directors. Nothing in this Subsection C-514(2) shall prevent the Corporation from immediately suspending a Non-Conforming Member.

Section C-515 Notification of Failure to Make Delivery/Make Payment

The Corporation shall report a Non-Conforming Member, and all circumstances surrounding the transaction that the Corporation deems relevant or appropriate, to each of the Exchanges, any appropriate self regulatory agency or regulatory agency, and to any other person or organization considered appropriate or necessary by the Corporation. Such notice may include, but is not restricted to, the following information: the identities of the delivering Clearing Member and the assigned Clearing Member, the notional value of the transaction, the issue to be delivered, the settlement amount and any other information considered appropriate or relevant by the Corporation.

Section C-516 Security Funds

Security Funds shall be in the same form as deposits accepted by the Corporation pursuant to Section A-608.

Section C-517 Deposit of Security Funds

- (1) Where a Non-Conforming Member has defaulted on the delivery of an Underlying Interest other than an Acceptable Security, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds in an amount equal to not less than 105% of the market value of the Underlying Interest to be delivered. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section C-514, shall end. The deposit of the Security Funds with the Corporation as herein provided does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or the payment of costs incurred by the Corporation in connection with the Non-Conforming Member's

default, and does not preclude the suspension of such Non-Conforming Member pursuant to Section A-1A05, or the assessment of additional sanctions under Rule A-4 and Rule A-5.

- (2) Where a Non-Conforming Member has failed to accept the delivery of an Underlying Interest other than an Acceptable Security and make payment therefor, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds equal to the settlement value, or, in the absolute discretion of the Corporation, in an amount equal to the difference between the liquidating value of the Underlying Interest and the settlement value, or such other amount as the Corporation may determine. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section C-514, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or payment of costs incurred by the Corporation in connection with the Non-Conforming Member's default, and does not preclude the suspension of such Non-Conforming Member pursuant to Section A-1A05, or the assessment of additional sanctions under Rule A-4 and Rule A-5.
- (3) Subject to Subsection A-701(3), the Security Funds deposited by a Non-Conforming Member shall be used, together with other Margin Deposits of the Non-Conforming Member, by the Corporation to effect delivery of or make payment in respect of the Underlying Interest, or otherwise meet the Corporation's obligations in respect of the transaction, or for any of the other purposes set forth in Subsection A-701(2).

Section C- 518 Effecting Delivery/Payment

- (1) Where a delivering Non-Conforming Member has failed to make delivery of an Underlying Interest other than an Acceptable Security or an assigned Non-Conforming Member has failed to accept a delivery thereof and make payment therefor, the Corporation shall use any funds available to it for such purposes, in such manner as it shall, in its sole discretion, consider appropriate, to effect delivery of or make payment in respect of the Underlying Interest, or otherwise settle such failed transaction. The Corporation will endeavour to effect delivery or make payment as soon as practicable, given the nature of the Underlying Interest and all of the circumstances of the particular transaction.
- (2) Where the Corporation has effected delivery of an Underlying Interest other than an Acceptable Security or made payment therefor, or otherwise settled the transaction, and the cost of so doing exceeds the Security Funds (if any) deposited under Section C-517, and other Margin Deposits, the Non-Conforming Member shall be liable to and shall promptly pay the Corporation the amount of the excess, in addition to any penalties and other sanctions that may be assessed, and the Corporation's reasonable expenses, including legal fees.
- (3) Where the Corporation has effected delivery of an Underlying Interest other than an Acceptable Security or made payment therefor, or otherwise settled the transaction, and the cost of so doing is less than the Security Funds (if any) deposited under Section C-517, any excess, less all assessed penalties and reasonable expenses, including legal fees, incurred by the Corporation, will be promptly returned to the Non-Conforming Member.

Section C-519 Other Powers of the Corporation



Notwithstanding the foregoing, the Corporation shall have the power to require a Non-Conforming Member to deposit such other funds or Security as the Corporation may, in its discretion, determine is necessary or advisable given the nature and value of the Underlying Interest and all of the circumstances of the failed transaction. A Non-Conforming Member shall cooperate fully with the Corporation in respect of the failed transaction and shall promptly provide the Corporation with such information relating thereto and to the Non-Conforming Member, as the Corporation may request.

Section C- 520 Suspension and Other Disciplinary Action

Notwithstanding any penalties or restrictions imposed on the Non-Conforming Member pursuant to Section C-514, the Corporation may suspend a Non-Conforming Member pursuant to Section A-1A05 or impose the sanctions provided for in Rules A-4 and A-5.

Section C-521 Force Majeure or Emergency

If delivery, settlement or acceptance or any precondition or requirement is prevented by *force majeure* or Emergency, the affected Clearing Member shall immediately notify the Exchange involved and the Corporation. The Exchange involved and the Corporation shall take such action as they deem necessary under the circumstances and their decision shall be binding upon all parties to the contract. Without limiting the generality of the foregoing, they may modify the Settlement Time and/or the settlement date; designate alternate or new delivery and settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or delivery and settlement process; and/or fix a Settlement Price.

RULE C-6 FUTURES SPECIFICATIONS

Section C-601 Designation of Futures

The Futures cleared through the Corporation shall be designated by reference to the Underlying Interest and the delivery or settlement day, month and year.

Section C-602 Approval of Underlying Interests and Contract Specifications

The Underlying Interest and Contract Specifications of Futures cleared through the Corporation shall be approved by the Board following the recommendation of one or more Exchanges.

Section C-603 Government Orders, Rulings

Specifications shall be fixed as of the first day of trading of a Future except that all deliveries and settlements must conform to government regulations in force at the time of delivery or settlement. If any Canadian governmental agency or body issues an order, ruling, directive or law pertaining to the trading, government auction, delivery or settlement of the Underlying Interest of a Future, such order, ruling, directive, or law shall be construed to take precedence and become part of these rules and all Open Positions and new Futures shall be subject to such government order.

RULE C-7 FUTURES ON STOCK INDICES

The Sections of this Rule C-7 are applicable only to Futures settling on a future date where the Underlying Interest is a Stock Index.

Section C-701 Definitions

Notwithstanding Section A-102 for the purposes of Futures on Stock indices, the following terms are as defined:

- “Exchange” - the Bourse de Montréal Inc.
- “Final Settlement Price” - the price determined by the Exchange on which the Futures trades as being the opening price of the Stock Index on the day following the last day of trading multiplied by the appropriate Multiplier.
- “Futures” - a contract to make settlement in cash on a future date of the difference between the Final Settlement Price and the Trade Price multiplied by the appropriate Multiplier pursuant to standardized terms and conditions set forth in these Rules and the regulations, rules and policies of the Exchange.
- “Multiplier” - the factor used to calculate the size of the contract as specified by the Exchange.
- “Stock Index” - a securities index specified by the Exchange which is determined by the inclusion and relative representation of the current market prices of a group of securities.
- “Underlying Interest” - the Stock Index which is the subject of the Futures.

Section C-702 Final Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last trading day is the difference between
- (i) the Final Settlement Price, and
 - (ii) the Settlement price of the contract on the business day before the last trading day,
- multiplied by the appropriate Multiplier; and
- (b) each position opened on the last trading day is the difference between
- (i) the Final Settlement Price, and

- (ii) the Trade price of the open contract
multiplied by the appropriate Multiplier.

Section C-703 Tender Notices

Rule C-5 shall not apply to Futures on Stock Indices as they are cash-settled.

Section C-704 Adjustments

No adjustments will ordinarily be made in the terms of Stock Index Futures in the event that underlying securities are added to or deleted from a Stock Index or when the relative weight of one or more underlying securities in a Stock Index is changed. However, the Corporation may, at the request of the Exchange, adjust the terms of the affected Stock Index Futures.

Section C-705 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for a Stock Index underlying any series of Stock Index Futures is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under these Rules, the Corporation may do any or all of the following:
 - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
 - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

Section C-706 Payment and Receipt of Payment of the Trade Price

The settlement value of maturing contract will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.



RULE C-8 DAILY SPOT INDEX FUTURES (SYMBOLS - TSE, TOI & TXX)

The Sections of this Rule C-8 are applicable only to Futures settling on the day after trade where the Underlying Interest is a TSE Index.

Section C-801 Definitions

Notwithstanding Section A-102 for the purposes of Daily Spot Index Futures, the following terms are as defined:

“Future” - a contract to make settlement in cash on the day after trade of the difference between the Spot Settlement Price of the applicable Index and the Trade Price multiplied by the appropriate Multiplier pursuant to standardized terms and conditions set forth in these Rules and the by-laws, rules or regulations of an Exchange.

“Multiplier” - the factor used to calculate the size of the contract. TOI and TSE = \$10.00; TXX = \$500.00.

“Spot Settlement Price” - the Settlement Price at the end of the trading day in a series of Daily Spot Index Futures multiplied by the appropriate Multiplier.

“TSE Index” - a securities index specified by The Toronto Stock Exchange which is determined by the inclusion and relative representation of the current market prices of a group of securities.

“Underlying Interest” - the TSE Index which is the subject of the Future.

Section C-802 Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation settlement of positions held following the close of trading of Daily Spot Index Futures shall be made on the first Business Day following the trade. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in settlement of each contract is the difference between (i) the Spot Settlement Price and (ii) the Trade Price of the contract multiplied by the appropriate Multiplier.

Section C-803 Tender Notices

Rule C-5 shall not apply to Daily Spot Index Futures as they are cash-settled.

Section C-804 Adjustments

No adjustments will ordinarily be made in the terms of Daily Spot Index Futures in the event that underlying securities are added to or deleted from a TSE Index or when the relative weight of one or more underlying securities in a TSE Index is changed. However, if the Corporation shall determine in its sole discretion that any such addition, deletion, or change causes significant discontinuity in the level of a TSE Index, the Corporation may adjust the terms of the affected Daily Spot Index Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

Section C-805 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Spot Settlement Price for a TSE Index underlying any series of Daily Spot Index Futures is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the Settlement of Gains and Losses. (At such times as the Corporation determines that the required Spot Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses); and
 - (b) Fix the Spot Settlement Price in accordance with the best information available as to the correct Spot Settlement Price.
- (2) The Spot Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Spot Settlement Price it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Spot Settlement Price to be used for settlement purposes.

Section C-806 Payment and Receipt of Payment of the Trade Price

The Trade Price will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

RULE C-9 US DOLLAR FUTURES (SYMBOL - USD)

The Sections of this Rule C-9 are applicable only to Futures where the Underlying Interest is U.S. \$50,000 herein referred to as “U.S. Dollar Futures”.

Section C-901 Definitions

“Underlying Interest” - U.S. \$50,000.

Section C-902 Settlement in Cash Through the Corporation

Notwithstanding Section C-502 for the purposes of U.S. Dollar Futures, the following applies.

Settlement of positions held following the close of trading on the last day of trading of the settlement month shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and the long Clearing Members. The amount to be paid or received in final settlement of each U.S. Dollar contract is the difference between:

- (i) the Bank of Canada average noon rate on the last day of trading, for one U.S. dollar in Canadian funds expressed to four decimal places and then multiplied by 50,000; and
- (ii) the Settlement Price of the U.S. Dollar Contract on the previous trading day multiplied by 500 or; for positions opened on the last trading day, the Trade Price of the open contract multiplied by 500.

Section C-903 Tender Notices

Rule C-5 shall not apply to the U.S. Dollar Futures as they are cash-settled.

Section C-904 Payment and Receipt of Payment of the Trade Price

The Trade Price will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

**RULE C-10 TREASURY BILL FUTURES II
(SYMBOL -TBT)**

The Sections of this Rule C-10 are applicable only to Futures where the Underlying Interest is 91-day Government of Canada Treasury Bills quoted in terms of the TFE T-Bill Index, herein referred to as “T-Bill Futures II”.

Section C-1001 Definitions

Notwithstanding Section A-102 for the purposes of T-Bill Futures II the following terms are as defined:

“Underlying Interest” – means 91-day Government of Canada Treasury Bills, having an aggregate face value at maturity of \$1,000,000, quoted in terms of the TFE T-Bill Index.

Section C-1002 Delivery Standards

- (1) The delivery unit for T-Bill Futures II shall be Government of Canada Treasury Bills with maturities ranging from 89 to 93 days, with a discounted value of \$1 million at delivery.
- (2) The following formula shall be used to calculate the Settlement Amount of the delivery unit:

$$\text{Settlement Amount} = \frac{1}{1 + (\text{T-Bill Yield} \times \frac{\text{Terms to Maturity}}{365})} \times \$1,000,000$$

Where: T-Bill Yield = 100 - TFE T-Bill Index at settlement, multiplied by 0.01

Terms to Maturity = bills bearing maturity of 89 to 93 days from the first Day of Delivery.

The Settlement Amount shall be rounded to 2 decimal places.

- (3) In the event that an auction of 91-day Treasury Bills is not conducted for any week in the month which a delivery day occurs, or, if for any reason the potential supply of Treasury Bills available for delivery against a series of T-Bill Futures II appears to be inadequate, the Corporation shall have the authority to specify as deliverable on a T-Bill Futures II such other Government of Canada securities as it deems substitutable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

Section C-1003 Submission of Tender Notices

- (1) A Clearing Member who holds an open Short Position in T-Bill Futures II of the series in the current Delivery Month on any of the three Bank of Canada auction days immediately preceding the last Friday of the Delivery Month and who wishes to make delivery may do so by submitting a Tender Notice to the Corporation no later than the time established by the Corporation on such Bank of Canada auction day indicating the maturity of the T-Bill being delivered.

- (2) A Clearing Member who holds an open Short Position in T-Bill Futures II of the series in the current Delivery Month at the time that trading in that series has ceased shall submit a Tender Notice to the Corporation no later than the time established by the Corporation on such last day of trading indicating the maturity of the T-Bill being delivered.
- (3) The Clearing Member to whom a delivery has been assigned must confirm to the Corporation that delivery has been completed.

This Section C-1003 supplements Section C-503.

Section C-1004 Delivery Through the Corporation

- (1) Day of Delivery - Delivery of Government of Canada Treasury Bills as required by this Rule shall be made by the Clearing Member on the first Business Day following tender, or on a day as otherwise determined by the Corporation.
- (2) Time of Delivery - Each Clearing Member who is to make or take delivery of Treasury Bills 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 therefor by the assigned Clearing Member, is not effected by the time provided in Subsection C-1004(2), such Non-Conforming Clearing Member 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 Clearing Member shall notify the Corporation of the default of the Non-Conforming Member by telephone, with written notification sent by facsimile transmission or electronic mail to be provided as soon as possible.

RULE C-11 LONG CANADA II FUTURES (SYMBOL - GCB)

The Sections of this Rule C-11 are applicable only to Futures where the Underlying Interest is long-term Government of Canada Bonds of minimum 15 years maturity, herein referred to as “Long Canada II Futures”.

This Rule C-11 shall not be applicable to Futures where the Underlying Interest is a 30-year Canada Bond.

Section C-1101 Definitions

Notwithstanding Section A-102 for the purposes of Long Canada II Futures the following terms are as defined:

“Underlying Interest” – means long-term Government of Canada Bonds maturing in no less than 15 years and having an aggregate face value at maturity of \$100,000.

Section C-1102 Delivery Standards

- (1) The delivery unit for Long Canada II Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 15 years from the date of delivery, having a coupon rate of 9% and an aggregate face value at maturity of \$100,000. 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 9% are deliverable, at a discount for bonds with coupons less than 9%, and at a premium for bonds with coupons more than 9%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 9% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 9% 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 Long Canada II 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. 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. 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.

Section C-1103 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 three Business Days prior to the first Business Day of the Delivery Month up to and including the fourth 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 no later than the time established by the Corporation on such last day of trading indicating the maturity of the Government of Canada Bonds being delivered.

This Section C-1103 supplements Section C-503.

Section C-1104 Delivery Through the Central Securities Depository

- (1) Day of Delivery - Delivery of long term Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the third Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation.
- (2) Time of Delivery - ~~each~~Each Clearing Member who is to make ~~or delivery of long term 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 long term 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, or at a time otherwise determined by the Central Securities Depository 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.

RULE C-12 CANADIAN BANKER'S ACCEPTANCE FUTURES (SYMBOL BAR & BAX)

The Sections of this Rule C-12 are applicable only to Futures settling on a future date where the Underlying Interest is a Canadian Bankers' Acceptance.

Section C-1201 Definitions

Notwithstanding Section A-102 for the purposes of Canadian Bankers' Acceptance Futures, the following terms are as defined:

“Canadian Bankers' Acceptance” - a bill of exchange that has been accepted by a Canadian chartered bank.

“Canadian Bankers' Acceptance Index” - an amount specified from time to time by an Exchange which is determined by subtracting from 100 the annualized yield on the Underlying Interest (based on a 365-day year).

“Canadian Bankers' Acceptance Reference Rate” - a rate expressed as an annual rate of interest determined daily by the Exchange on which the Future trades by taking the arithmetic mean (rounded to the nearest 1/1000th of a percentage point) of the bid rates for Canadian Bankers' Acceptances, which are the subject of the Future, quoted by various Canadian chartered banks and investment dealers selected by the Exchange at random, provided that the two highest quoted bid rates and the two lowest quoted bid rates shall not be taken into account in calculating the arithmetic mean of the quoted rates and provided that the Exchange on which the Future trades, if it considers it appropriate to do so, may determine that such rate shall be calculated in some other fashion.

“Final Settlement Price” - the amount quoted by the Exchange on which the Future trades at the close of trading on the last day on which such Future trades determined by subtracting from 100 the Canadian Bankers' Acceptance Reference Rate for such day, rounded to the nearest 1/1000th of a percentage point.

“Future” - a contract to make settlement in cash on a future date of the difference between the Final Settlement Price and either the Trade Price or the Settlement Price on the previous day multiplied by the appropriate Multiplier pursuant to standardized terms and conditions set forth in these Rules and the regulations, rules and policies of an Exchange.

“Multiplier” - the value of one basis point which is used to calculate the size of the contract: \$25.00.

“Underlying Interest” -

- BAR - a Canadian Bankers' Acceptance having a principal value at maturity of \$3,000,000 with a one-month maturity and quoted in term of a Canadian Bankers' Acceptance Index.
- BAX - a Canadian Bankers' Acceptance having a principal value at maturity of \$1,000,000 with a three-month maturity and quoted in term of a Canadian Bankers' Acceptance Index.

Section C-1202 Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of

- (a) each position opened prior to the last trading day is the difference between
 - (i) the Final Settlement Price; and
 - (ii) the Settlement Price of the contract on the previous trading daymultiplied by the Multiplier; and
- (b) each position opened on the last trading day is the difference between
 - (i) the Final Settlement Price; and
 - (ii) the Trade Price of the open contractmultiplied by the Multiplier.

Section C-1203 Tender Notices

Rule C-5 shall not apply to Canadian Bankers' Acceptance Futures as they are cash-settled.

Section C-1204 Adjustments

No adjustments will ordinarily be made in the terms of Canadian Bankers' Acceptance Futures in the event that the Canadian Bankers' Acceptance Index is changed. However, if the Corporation shall determine in its sole discretion that any such change causes significant discontinuity in the level of the Canadian Bankers' Acceptance Index, the corporation may adjust the terms of the affected Canadian Bankers' Acceptance Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to the trading of the Canadian Bankers' Acceptance and the Corporation determines that a discontinuity in the level of the Canadian Bankers' Acceptance Index is caused by such a Government order, it shall take such action as it deems necessary and fair under the circumstances.

Section C-1205 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for any series of Canadian Bankers' Acceptance Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) suspend the Settlement of Gains and Losses. At such times as the corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.

- (b) fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

Section C-1206 Payment and Receipt of Payment of the Trade Price

The Trade price will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

RULE C-13 10-YEAR CANADA BOND FUTURES (SYMBOL - CGB)

The Sections of this Rule C-13 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1302, herein referred to as “10-year Canada Bond Futures”.

Section C-1301 Definitions

Notwithstanding Section A-102 for the purposes of 10-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-1305.

“Underlying Interest” – means Government of Canada Bonds which meet the criteria established in Section C-1302 of this Rule.

Section C-1302 Delivery Standards

1. For 10-year Canada Bond Futures Expiring in December 1999 or March 2000.
 - (a) The delivery unit for 10-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 8 years and no more than 10 1/2 years from the first calendar day of the Delivery Month, having a coupon rate of 9%, 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 10-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 9% are deliverable, at a discount for bonds with coupons less than 9%, and at a premium for bonds with coupons more than 9%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 9% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 9% 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 10-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.
2. For 10-year Canada Bond Futures Expiring on or after June 2000.
 - (a) The delivery unit for 10-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 8 years and no more than 10 1/2 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 10-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 10-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.
3. For all 10-year Canada Bond Futures
- (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 10-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 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 10-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-1303 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 three Business Days prior to the first Business Day of the Delivery Month up to and including the third 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 third Business Day preceding the last Business Day of the Delivery Month.

This Section C-1303 supplements Section C-503.

Section C-1304 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 third 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 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 against or by payment of certified funds by no later than 2:45 p.m. on the Day of Delivery, or at a time otherwise determined by the Central Securities Depository 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-1305 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 permits 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 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-1305 replaces Section C-505.

Section C-1306 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~~ 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 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~~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(3)(a) and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5.

RULE C-14 5-YEAR CANADA BOND FUTURES

The Sections of this Rule C-14 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1402, herein referred to as “5-year Canada Bond Futures”.

Section C-1401 Definitions

Notwithstanding Section A-102 for the purposes of 5-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-1405.

“Underlying Interest” —means Government of Canada Bonds which meet the criteria established in Section C-1402 of this Rule.

Section C-1402 Delivery Standards

- (1) The delivery unit for 5-year Canada Bond Futures shall be ~~Government~~Government of Canada Bonds which do not mature and are not callable for at least 3 years six months and no more than 5 years three 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 ~~an original maturity of not more than been originally issued at 5-years nine months. A year Government of Canada bond issue which was deliverable in the 10-year Canada Bond Futures and which would otherwise meet the standards of this Rule C-14, is also deemed eligible for delivery.~~ 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 5-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 an original maturity of more than 5 years nine months 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 5-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-1403 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 three Business Days prior to the first Business Day of the Delivery Month up to and including the third 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 third 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-1403 supplements Section C-503-502.

Section C-1404 Delivery Through the ~~Central Securities Depository~~ 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 third 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 long term Government of Canada bonds shall do so ~~against or by payment of certified funds by no later than in accordance with Paragraph A-801(2:45 p.m. on the Day)(d) and each Clearing Member who is to take delivery of long term Government~~ of Delivery, or at a time otherwise determined by the Central Securities Depository 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-1405 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 permits 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-1405 replaces Section C-505.

Section C-1406 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~~ CDCC 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~~ CDCC.
- (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(3)(a) procedures of the Corporation and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5 the Rules.

RULE C-15 SHARE FUTURES

The Sections of this Rule C-15 are applicable only for Futures settling on a future date where the Underlying Interest is an individual stock.

Section C-1501 Definitions

“Canadian Share Futures” – A Futures contract that requires the parties to this contract to make or receive delivery of a specified number of Canadian stocks at the expiry of the contract at a price agreed upon when the contract was entered into on the Exchange.

“Delivery” – physical delivery made in accordance with the delivery procedure of CDS following the Maturity Date, or on a day as otherwise determined by the Corporation.

“Final Settlement Price” – the price of the Underlying Interest as determined by the product specifications of the Bourse de Montréal Inc.

“Foreign Share Futures” – A Futures contract that requires the parties to this contract to pay or receive from the Corporation the difference between the Final Settlement Price of the Underlying Interest and the initial Trade Price multiplied by the appropriate Unit of Trading.

“Last Trading Date” – the Maturity Date.

“Maturity Date” – the Final Settlement Date as defined by the Bourse de Montréal Inc. from time to time.

“Recognized Exchange” – an recognized exchange according to the definition in Rule One of Bourse de Montréal Inc.

“Settlement Price” – the official daily closing price of a Futures, as determined in accordance with Section C-301.

“Underlying Interest” – Stocks meeting the criteria described in this Rule.

“Unit of Trading” – 100 shares of the Underlying Interest, unless otherwise designated.

Section C-1502 Approval of Underlying Interest

- (1) The Stocks underlying the Futures issued by the Corporation shall be approved based on criteria described in Section C-1503 of the Rules.

Section C-1503 Criteria for Eligibility of Share Futures

In considering whether any Stock should be approved as the Underlying Interest of a Share Futures, the Corporation, in those circumstances where C-1504 does not apply, shall ensure that prior to being approved as an Underlying Interest the Stock meets all of the following criteria:

- (1) For a Canadian Share Futures, the Stock will meet the Options eligibility criteria described in Section B-603.

- (2) For a Foreign Share Futures, the Stock:
 - (i) trades on a Recognized Exchange; and
 - (ii) there are derivatives listed on a Recognized Exchange on that Underlying Interest.

Section C-1504 Procedure for Assessing the Effect of Stock List Changes on Share Futures Eligibility

- (1) Acquisition of a Listed Company by a Newly-Established Company

If a newly-established company has acquired a listed company, the trading record and history of the predecessor company may be used to test the Share Futures eligibility of the stock of the new company as provided for in Section C-1503.

- (2) Name Changes

Corporate name changes have no effect on listed issues Share Futures eligibility. All statistics and history of the predecessor company continue to apply to the Underlying Interest under the new corporate name.

- (3) Substitutional Listings

When a Stock list change which is the result of a merger or acquisition involving the issuance or acquisition of listed shares has occurred, all listed issues connected with the change are reviewed. No decision to change the Share Futures status of a listed issue will occur until after the offer or transaction is completed. The general process which applies is as follows:

- (a) (i) it is confirmed by the Corporation that each of the predecessor companies is listed on a Recognized Exchange; or
 - (ii) on receipt of the notice of corporate change or following the closing date of a share purchase offer, it is confirmed by the Corporation that at least one predecessor company has Share Futures currently listed on the Bourse de Montréal Inc., and these Share Futures are not at or past the date where no new series may be listed if they are classified as delistable by the Corporation.
- (b) It is confirmed by the Corporation that the resultant company is listed on a Recognized Exchange.

- (4) New Shares

If new shares are created for the purpose of completing a merger or acquisition involving the issuance or acquisition of listed shares, the relationship between the old and new shares will determine if the new shares will be treated either as a substitutional, original or supplementary listing by the Corporation. Generally if the new issue is the only common issue of the company, then the new issue will be treated as a substitutional issue. Otherwise the issue will be treated as an original or supplementary issue by the Corporation.

Section C-1505 Withdrawal of Approval of Underlying Interest

Whenever the Board determines that an Underlying Interest, for any reason, should no longer be approved, the Corporation shall advise the Exchange that the Corporation will no longer accept trades in such Class of Futures (other than closing transactions) or in any additional Series of Futures of the Class of Futures covering that Underlying Interest.

Section C-1506 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for any series of Share Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
 - (b) fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

A) Section C-1507 through Section C-1510 inclusive apply to Canadian Share Futures:

Section C-1507 Good Deliverable Form of Stocks

A Stock held at CDS shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such Stock would constitute good delivery under the regulations, rules and policies of the Exchange.

Section C-1508 Delivery Through the Central Securities Depository

- (1) Day of Delivery – Physical delivery of the Underlying Interest as required by this Rule shall be made in accordance with the delivery procedure of CDS following the Maturity Date, or on a day as otherwise determined by the Corporation.
- (2) If the member can not provide proof of delivery by that deadline, the member will be considered non-conformed.

Section C-1509 Assignment of Share Futures Contracts

- (1) All long Share Futures contract positions will receive delivery in accordance with the Corporation's procedures from accounts with open Short Positions in the Series of Futures involved. The Corporation shall treat the accounts of all Clearing Members equally.

B) Section C-1510 through C-1512 inclusive apply to Foreign Share Futures:

Section C-1510 Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of

- (a) each position opened prior to the last trading day is the difference between
- (i) the Final Settlement Price; and
 - (ii) the Settlement Price of the contract on the business day before the last trading day,
- multiplied by the Unit of Trading using the current foreign currency rate as specified in the product specifications, and
- (b) each position opened on the last trading day is the difference between
- (i) the Final Settlement Price; and
 - (ii) the Trade Price of the open contract,
- multiplied by the Unit of Trading using the current foreign currency rate as specified in the product specifications.

Section C-1511 Tender Notices

Rule C-5 shall not apply to Foreign Share Futures as they are cash-settled.

Section C-1512 Payment and Receipt of Payment of the Trade Price

The settlement value of maturing contract will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

**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 the 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 expiring 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 December 2006 2-year Canada Bond Futures and for subsequent contract months 2010 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 December 2010 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~~ — For the 2-year Canada Bond Futures expiring before December 2010, 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 December 2010 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.

~~ii) Substitution — For the December 2006 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 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.~~

(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 \$2.4 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.

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-503-502.

Section C-1604 Delivery Through the ~~Central Securities Depository~~ 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 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 against or by payment of certified funds by no later than 2:45 p.m. on the Day of Delivery, or at a time otherwise determined by the Central Securities Depository 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-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)~~
- (3) 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.

Section 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~~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 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~~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(3)(a) procedures of the Corporation and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5the Rules.

RULE C-17 30-DAY OVERNIGHT REPO RATE FUTURES (SYMBOL - ONX)

The Sections of this Rule C-17 are applicable only to Futures settling on a future date where the Underlying Interest is the 30-day Overnight Repo Rate.

Section C-1701 Definitions

Notwithstanding Section A-102, for the purposes of the 30-day Overnight Repo Rate Futures contract, the following terms are as defined:

- “Final Settlement Price” - The Final Settlement Price shall be determined by the Exchange on which the Futures trade by subtracting from 100 the monthly arithmetic average of the daily Overnight Repo Rate for the contract month rounded to the nearest tenth of a basis point. The decimal fraction ending in a five (5) or higher shall be rounded up.
- “Multiplier” - the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures trade.
- “Overnight Repo Rate” - means the Canadian Overnight Repo Rate published by the Bank of Canada being the weighted average rate of overnight general (non-specific) collateral repo trades on a specified date as reported to the Bank of Canada.
- “Overnight Repo Rate Index” - 100 minus the monthly average Overnight Repo Rate for the contract month.
- “Underlying Interest” - Overnight Repo Rate calculated on a 30-day basis and quoted in terms of an Overnight Repo Rate Index.

Section C-1702 Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of each position opened on or prior to the last day of trading shall be the difference between

- (i) the Final Settlement Price; and
 - (ii) the Settlement Price of the contract on the last day of trading,
- multiplied by the Multiplier of the contract.

Section C-1703 Tender Notices

Rule C-5 shall not apply to 30-day Overnight Repo Rate Futures as they are cash-settled.

Section C-1704 Adjustments

No adjustments will ordinarily be made in the terms of the 30-day Overnight Repo Rate Futures in the event that the Overnight Repo Rate Index is changed. However, if the Corporation shall determine in its sole discretion that any such change causes significant discontinuity in the level of the Overnight Repo Rate Index, the Corporation may adjust the terms of the affected Overnight Repo Rate Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to repo transactions and the Corporation determines that a discontinuity in the level of the Overnight Repo Rate Index is caused by such a Government order, it shall take such action as it deems necessary and fair under the circumstances.

Section C-1705 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for any series of 30-day Overnight Repo Rate Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the Settlement of Gains and Losses. At such time as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
 - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange on which the Futures trade shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement Price it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

RULE C-18 30-YEAR CANADA BOND FUTURES (SYMBOL - LGB)

The Sections of this Rule C-18 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1802, herein referred to as “30-year Canada Bond Futures”. For further clarification, this Rule C-18 replaces Rule C-11 in so far as the Underlying Interest is a 30-year Canada Bond.

Section C-1801 Definitions

Notwithstanding Section A-102 for the purposes of 30-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-1805.

“Underlying Interest” – means Government of Canada Bonds which meet the criteria established in Section C-1802 of this Rule.

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 at least 21 years and no more than 33 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 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 a Business Day from three Business Days prior to the first Business Day of the Delivery Month up to and including the third 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 third 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 third 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 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 against or by payment of certified funds by no later than 2:45 p.m. on the Day of Delivery, or at a time otherwise determined by the Central Securities Depository~~ 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 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 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.

Section C-1806 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~~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 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~~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(3)(a) and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5.

**RULE C-19 FUTURES CONTRACTS ON CARBON DIOXIDE EQUIVALENT (CO₂E) UNITS
WITH PHYSICAL SETTLEMENT
(SYMBOL – MCX)
2008.05.30**

This Rule C-19 is applicable only to Futures Contracts with Physical Settlement where the deliverable Underlying Interest is a specified number of Carbon Dioxide Equivalent (CO₂e) Units as defined in Section C-1901, herein referred to as “Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement”.

Section C-1901 Definitions

Notwithstanding Section A-102, for the purposes of Futures Contract on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement, the following terms are as defined:

“Alternative Delivery Procedure (ADP)” - an agreement between the delivering Clearing Member and the assigned Clearing Member to make and take delivery under terms or conditions which differ from the usual delivery terms and conditions prescribed by the futures contract specifications and by the present Rule.

“Carbon Dioxide Equivalent (CO₂e)” - a unit of measure used to allow the comparison between greenhouse gases that have different global warming potentials.

“Carbon Dioxide Equivalent (CO₂e) Unit” - any right, benefit, title or interest recognized by a governmental or legislative authority in Canada, associated partly or in its entirety to a reduction of the emissions of greenhouse gases expressed in carbon dioxide equivalent (CO₂e).

“Exchange” - Bourse de Montréal Inc.

“Final Settlement Price” - the price of the Underlying Interest as determined by the product specifications of the Exchange.

“Underlying Interest” - the asset which underlies and determines the value of a futures contract. In the case of Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement, the Underlying Interest is 100 Carbon Dioxide Equivalent (CO₂e) Units.

Section C-1902 Delivery Standards

For Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement, the only Carbon Dioxide Equivalent (CO₂e) Units acceptable for delivery shall be those specified by the Exchange from time to time.

Before a Futures Contract on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement is listed for trading, the Exchange shall have the right to exclude from the deliverable of such futures contract any Carbon Dioxide Equivalent (CO₂e) Unit it deems appropriate to exclude, even if such unit meets all the standards specified by the Exchange.

Section C-1903 Submission of Tender Notices

A Clearing Member who holds a Short Position in the currently deliverable futures contract and who wishes to make delivery must submit a Tender Notice to the Corporation on the last trading day of the futures contract.

A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable futures contract shall submit a Tender Notice to the Corporation no later than the time established by the Corporation on such last trading day.

The Clearing Member to whom a delivery has been assigned must confirm to the Corporation that delivery has been completed unless the Clearing Member has chosen to enter into an Alternative Delivery Procedure as described in Section C-1907.

This Section C-1903 supplements Section C-503.

Section C-1904 Delivery Through the Corporation

- (1) Day of Delivery - Delivery of Carbon Dioxide Equivalent (CO₂e) Units as required by this Rule shall be made by the Clearing Member on the third 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 or take delivery of Carbon Dioxide Equivalent (CO₂e) Units shall do so against or, as the case may be, by payment of certified funds by no later than 2:45 p.m. on the Day of Delivery.
- (3) Membership at Registry - A Clearing Member that intends to clear Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement through the facilities of the Corporation, must ensure that at all times it and/or its client is and remains in good standing with the Registry.
- (4) If delivery of the Underlying Interest by the delivering Clearing Member, or payment thereof by the assigned Clearing Member, is not effected by the time provided in Subsection C-1904(2), such Non-Conforming Clearing Member 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 Clearing Member shall notify the Corporation of the default of the Non-Conforming Member by telephone, together with written notification sent by facsimile transmission or electronic mail to be provided as soon as possible.
- (5) Final Settlement Price – Each Clearing Member who is to make or take delivery of Carbon Dioxide Equivalent (CO₂e) Units shall use the Final Settlement Price as determined by the Exchange.

Section C-1905 Assignment of Tender Notice

- (1) Tender Notices accepted by the Corporation shall be assigned at the end of the last trading day of the futures contract to Clearing Members with open Long Positions as of the close of the last trading day. Such assignment shall be made in accordance with the Corporation random selection procedures.

- (2) No Tender Notice shall 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.

Section C-1906 Shortage of Deliverable Carbon Dioxide Equivalent (CO₂e) Units

In the eventuality where the Board of Directors of the Corporation decides that a shortage of deliverable Carbon Dioxide Equivalent (CO₂e) Units exists or might exist, it shall take all necessary action to correct, prevent or alleviate the situation. The Board of Directors of the Corporation could, for instance:

- i) Designate as being acceptable for delivery any other type of Carbon Dioxide Equivalent (CO₂e) Units that had not been previously identified as being acceptable for delivery;
- ii) Instead of the normal delivery procedures, decide on a cash settlement in accordance with the following procedure:

A Final Settlement Price will be determined by the Exchange on the last day of trading. The final settlement in cash shall be made in accordance with the procedure specified in Section C-2002 on the final settlement date, which shall be the same date as the Day of Delivery described in Subsection C-1904(1), that is the third Business Day following the last day of trading, or on a day as otherwise determined by the Corporation.

The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

In the event that the Registry referred to in Section A-102 is not in place at the expiry of a Futures Contract on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement whose specifications provide for the delivery of the units underlying such futures contract, the contract shall be settled in cash in the manner described in Paragraph ii) above.

Notwithstanding the provisions regarding cash settlement in this Section, the Clearing Member who holds a Short Position in the currently deliverable futures contract and who wishes to make delivery must submit a Tender Notice in accordance with the provisions described in the first and second Paragraphs of Section C-1903.

Section C-1907 Alternative Delivery Procedure

Where the delivering Clearing Member and the assigned Clearing Member agree, for a Futures Contract on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement, to make and take delivery of the Carbon Dioxide Equivalent (CO₂e) Units under terms or conditions which differ from the terms and conditions prescribed in this Rule, the relevant Clearing Members may agree on an Alternative Delivery Procedure (“ADP”) in the form prescribed by the Corporation.

The Corporation is released from any responsibility towards these Clearing Members and for the Futures Contract on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement once an Alternative Delivery Procedure agreement and its terms have been confirmed by the two Clearing Members and the Corporation. Clearing Members who agree on an Alternative Delivery Procedure undertake to indemnify the Corporation in respect of any costs, charges and expenses incurred by the Corporation in connection with this contract and such agreement, including, without limitation, any costs, charges and expenses incurred as a result of a failure on the part of a Clearing Member to meet its obligations under an Alternative Delivery Procedure agreement. The Alternative Delivery Procedure agreement must be confirmed by the two Clearing Members and the Corporation no later than 2:45 p.m. on the third Business Day that follows the last day of trading, otherwise the relevant Clearing Members will be considered to have failed to their delivery related obligations under the Rules of the Corporation.

When the Alternative Delivery Procedure agreement has been confirmed by the Corporation, Rule C-5, Delivery of Underlying Interest of Futures, no longer applies to Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Physical Settlement.

Section C-1908 Force Majeure

Notwithstanding the provisions of Section C-521, Force Majeure or Emergency, in the specific situation where the trading system related to the Carbon Dioxide Equivalent (CO₂e) Units is no longer scheduled to proceed, is not implemented by any governmental or legislative authority in Canada or is to be discontinued by any governmental or legislative authority in Canada, the Board of Directors of the Corporation shall decide on the cash settlement of the contract at a price that reflects a minimum quality standard established by recognized standards organizations to be determined from time to time by the Exchange.

**RULE C-20 FUTURES CONTRACTS ON CARBON DIOXIDE EQUIVALENT (CO₂E) UNITS
WITH CASH SETTLEMENT
(SYMBOL – XXX)**

This Rule C-20 is applicable only to Futures Contracts with Cash Settlement where the Underlying Interest is a specified number of Carbon Dioxide Equivalent (CO₂e) Units as defined in Section C-2001, herein referred to as “Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Cash Settlement”.

Section C-2001 Definitions

Notwithstanding Section A-102, for the purposes of Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Cash Settlement, the following terms are as defined:

“Carbon Dioxide Equivalent (CO₂e)” – a unit of measure used to allow the comparison between greenhouse gases that have different global warming potentials.

“Carbon Dioxide Equivalent (CO₂e) Unit” – any right, benefit, title or interest recognized by a governmental or legislative authority in Canada, associated partly or in its entirety to a reduction of the emissions of greenhouse gases expressed in Carbon Dioxide Equivalent (CO₂e).

“Exchange” – Bourse de Montréal Inc.

“Final Settlement Price” – the price of the Underlying Interest as determined by the product specifications of the Exchange.

“Multiplier” – the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Cash Settlement trade.

“Underlying Interest” – the asset which underlies and determines the value of a futures contract. In the case of Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Cash Settlement, the Underlying Interest is 100 Carbon Dioxide Equivalent (CO₂e) Units.

Section C-2002 Final Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures Contracts shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the Clearing Members holding Long and Short positions. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last day of trading is the difference between
 - (i) the Final Settlement Price, and
 - (ii) the Settlement Price of the futures contract on the Business Day before the last day of trading,
- multiplied by the Multiplier of the futures contract; and

- (b) each position opened on the last day of trading is the difference between
 - (i) the Final Settlement Price, and
 - (ii) the Trade Price of the open futures contractmultiplied by the Multiplier of the futures contract.

Section C-2003 Tender Notices

Rule C-5 shall not apply to Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with Cash Settlement as they are cash-settled.

Section C-2004 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for a Futures Contract on Carbon Dioxide Equivalent (CO₂e) Units with Cash Settlement is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for the Settlement of Gains and Losses.
 - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

Section C-2005 Payment and Receipt of Payment of the Trade Price

The settlement value of maturing contracts will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

Section C-2006 Force Majeure or Emergency

If settlement or acceptance or any precondition or requirement is prevented by *force majeure* or Emergency, the affected Clearing Member shall immediately notify the Exchange and the Corporation. The Exchange and the Corporation shall take such action as they deem necessary under the circumstances and their decision shall be binding upon all parties to the contract. Without limiting the generality of the foregoing, they may modify the Settlement Time and/or the settlement date; designate alternate or new settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or settlement process; and/or fix a Settlement Price.



In the specific situation where the trading system related to the Carbon Dioxide Equivalent (CO₂e) Units is no longer scheduled to proceed, is not implemented by any governmental or legislative authority in Canada or is to be discontinued by any governmental or legislative authority in Canada, the Board of Directors of the Corporation shall decide on the cash settlement of the contract at a price that reflects a minimum quality standard established by recognized standards organizations to be determined from time to time by the Exchange.



RULE C-21 FUTURES CONTRACTS ON CANADIAN CRUDE OIL WITH CASH SETTLEMENT

The Sections of this Rule C-21 are applicable only to Futures Contracts on Canadian Crude Oil with Cash Settlement.

Section C-2101 Definitions

Notwithstanding Section A-102, for the purposes of Futures Contracts on Canadian Crude Oil with Cash Settlement, the following terms are as defined:

“Exchange” – Bourse de Montréal Inc.

“Final Settlement Price” – the price of the Underlying Interest, expressed in U.S. dollars, as determined by the product specifications of the Exchange.

“Futures” – a contract to make settlement in cash on a future date of the difference between the Final Settlement Price and the Trade Price multiplied by the appropriate Multiplier pursuant to standardized terms and conditions set forth in these Rules and the regulations, rules and policies of the Exchange.

“Multiplier” – the factor used to calculate the size of the contract, as specified by the Exchange, of the Futures Contracts on Canadian Crude Oil with Cash Settlement. The factor is set at 1,000 U.S. barrels.

“Underlying Interest” – means the price of one (1) U.S. Barrel of Canadian crude oil, expressed on a differential price basis, as determined by the Exchange.

“U.S. Barrel” – means 42 U.S. gallons of 231 cubic inches per gallon measured at 60°F.

Section C-2102 Final Settlement in Cash through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures Contracts shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the Clearing Members holding Long and Short positions. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last day of trading is the difference between
 - (i) the Final Settlement Price, and
 - (ii) the Settlement Price of the futures contract on the Business Day before the last day of trading,multiplied by the Multiplier of the futures contract; and
- (b) each position opened on the last day of trading is the difference between
 - (i) the Final Settlement Price, and

- (ii) the Trade Price of the open futures contract

multiplied by the Multiplier of the futures contract.

Section C-2103 Tender Notices

Rule C-5 shall not apply to Futures Contracts on Canadian Crude Oil with Cash Settlement as they are cash-settled.

Section C-2104 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for a Futures Contract on Canadian Crude Oil with Cash Settlement is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for the Settlement of Gains and Losses.
 - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

Section C-2105 Payment and Receipt of Payment of the Trade Price

The settlement value of maturing contracts will be included with other settlements on the daily Futures Consolidated Activity Report.

Section C-2106 Force Majeure or Emergency

If settlement or acceptance or any precondition or requirement is prevented by “Force Majeure” or Emergency the affected Clearing Member shall immediately notify the Exchange and the Corporation. If the Exchange and the Corporation decide that a Force Majeure or Emergency is in progress, by their own means or following the reception of a notice to this effect from a Clearing Member, they shall take all necessary actions in the circumstances and their decision shall be binding upon all parties to Futures Contracts on Canadian Crude Oil with Cash Settlement affected by the Force Majeure or Emergency. Without limiting the generality of the foregoing, the Corporation may take one or many of the following measures:

- a) modify the Settlement Time;
- b) modify the settlement date;



- c) designate alternate or new settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or settlement process;
- d) fix a Settlement Price.

Neither the Exchange nor the Corporation shall be liable for any failure or delay in the performance of the Corporation's obligations to any Clearing Member if such failure or delay arises out of a Force Majeure or Emergency.

Section C-2107 Currency

All trading and settlement of Futures Contracts on Canadian Crude Oil with Cash Settlement takes place in United States funds. All margin requirements will be calculated in United States funds and converted to Canadian funds at a rate of exchange determined from time to time by the Corporation. All clearing fees and Margin in relation to Futures Contracts on Canadian Crude Oil with Cash Settlement will be payable in Canadian Funds.

PART D – OVER-THE-COUNTER INSTRUMENTS (“OTCI”)

RULE D-1 CLEARING OF OVER-THE-COUNTER INSTRUMENTS (“OTCI”)

The provisions of this Part D shall apply only to OTCI which are cleared by the Corporation, pursuant to these Rules and to those Clearing Members who are required to make a base deposit to the Clearing Fund for OTCI clearing as set out in Paragraph A-601(2)(c).

Section D-101 Responsibility of Members for OTCI

Every Clearing Member shall be responsible for the clearance of its own OTCI transactions and of the OTCI transactions of each Client which has agreed with the Clearing Member that its transactions will be cleared by such Clearing Member. A copy of such clearing agreement shall be provided to the Corporation upon its request.

Section D-102 Maintenance of Accounts

- (1) Every Clearing Member shall establish and maintain with the Corporation the following accounts:
 - (a) One or more Firm Account(s) which shall be confined to Firm Transactions of such Clearing Member; and
 - (b) One or more Client Account(s), which shall be confined to the Transactions of its Clients, if the Clearing Member conducts business with the public in OTCI.

Section D-103 Agreement Regarding Accounts

Every Clearing Member shall agree that:

- (1) In respect of any Firm Account, the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Margin, and other Margin Deposits in respect of such account as security for all of the Clearing Member's obligations to the Corporation.
- (2) Notwithstanding Subsection A-701(3), in respect of any Client Account, the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of such account, except that the Corporation shall not have a security interest and hypothec on the Long Positions in OTCI Transactions that are Options in a Client Account.
- (3) The Corporation may close out the positions in such accounts and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation, at any time, without prior notice to the Clearing Member, except that the proceeds of closing out positions in any Client Account shall only be applied to obligations of the Clearing Member to the Corporation with respect to such Client Account.

- (4) Each Clearing Member is responsible for all obligations owed to the Corporation in respect of every account opened by or in respect of such Clearing Member.
- (6) Amounts standing to the credit of a Clearing Member's accounts may be applied by the Corporation towards the payment of any sum due by a Clearing Member to the Corporation, subject to Section A-704(2).

Section D-104 Acceptance Criteria

Acceptance Criteria reflect the acceptance parameters for an OTCI transaction to be cleared by the Corporation. More details concerning these Acceptance Criteria can be found in the Risk Manual (Annex A of the Operations Manual).

- (1) With respect to the transaction:
 - (a) that the Underlying Interest of the OTCI is one of the Acceptable Underlying Interests;
 - (b) that the OTCI is one of the Acceptable Instrument Types;
 - (c) when a transaction originates from a marketplace, that the latter is an Acceptable Marketplace;
 - (d) that the Notional Quantity of the OTCI transaction respects the thresholds as defined by the Corporation;
 - (e) that the counterparties involved in the original OTCI transaction are either Clearing Members in good standing, or are clients of such Clearing Members.
- (2) That such Clearing Member:
 - (a) is not considered Non-Conforming by the Corporation as defined in Section A-1A04;
 - (b) that the transaction will not have the effect of the Clearing Member or client exceeding their respective Risk Limits, as determined by the Corporation;
 - (c) that the Clearing Members or their clients continue to be in good standing with the relevant Market Centres.
- (3) Exemptions: A Clearing Member requests an exemption from the risk limits prescribed in this article. If the Corporation rejects the exemption request, it will provide reasons for such rejection to the Clearing Member within a reasonable time delay.

For the purpose of the Acceptance Criteria in Paragraph (1) (a) above, with respect to OTCI transactions for which the Underlying Interest is a Security, the Acceptable Underlying Interest contemplated and the Unit of Trading of the Acceptable Underlying Interest shall be approved by the Board. The Board may withdraw an Acceptable Underlying Interest that it had previously approved, if it deems, for any reason, that such Underlying Interest shall no longer be approved. The stocks contemplated for OTCI that are options shall be approved by the Board by applying the definitions and criteria identified in Sections B-601, B-603, B-604 (1) and B-605 of the Rules. Although, in exceptional circumstances and for the purpose of maintaining a fair

and orderly market or for the protection of investors, the Corporation may accept to clear OTCI that are options on Underlying Interest that respect one or many of the criteria of Subsection B-604(1).

Section D-105 Novation

Through novation, the Corporation acts as central counterparty between each Clearing Member.

All OTCI transactions that are submitted to the Corporation are registered in the name of the Clearing Member. Upon Acceptance of the Transaction, novation occurs and the initial Transaction is replaced by two different transactions between the Corporation and each Clearing Member involved in the Transaction.

Each Clearing Member looks to the Corporation for the performance of the obligations under a Transaction and not to another Clearing Member. The Corporation shall be obligated to the Clearing Member in accordance with the provisions of these Rules. Furthermore, each client of a Clearing Member looks solely to the Clearing Member for performance of the obligations and not to the Corporation.

Section D-106 Obligations of the Corporation

Acceptance by the Corporation of an OTCI shall, subject to the fulfilment of the conditions precedent set forth in Section D-104, be deemed to have occurred following the issuance by the Corporation of the relevant Trade Confirmation.

In the event that an OTCI transaction does not meet the Acceptance Criteria as set forth in Section D-104, the Corporation will not register the transaction and will provide reasons for such rejection to all relevant parties within a reasonable time delay.

Notwithstanding the foregoing, the Corporation may reject an OTCI submitted for clearing by a Non-Conforming Member.

Section D-107 Obligations of the Clearing Member

- (1) The Clearing Member responsible for an OTCI transaction requiring an up-front payment shall be obligated to pay to the Corporation the amount of said payment agreed upon in such OTCI transaction. Such payment shall be made as set forth in these Rules not later than the Settlement Time for such OTCI transaction.
- (2) Between the time of the issuance of the Trade Confirmation and the Settlement Time, the Corporation reserves the right to request that the purchasing Clearing Member deposit a Margin for the amount of the up-front payment, or any other amount which it deems acceptable considering prevailing market conditions.

Section D-108 Transaction Reporting

- (1) The acceptance of every OTCI transaction by the Corporation as provided in Section D-104 shall be subject to the condition that the Acceptable Marketplace on which such OTCI transaction occurred, or the parties involved in such transaction, have provided the Corporation with the following information:
 - (a) The identity of purchasing Clearing Member and the writing Clearing Member;

- (b) The Accounts where said transaction will be registered; and
 - (c) The details of the transaction corresponding to the Instrument Specifications in Sections D-406 or D-506 of these Rules.
- (2) The Corporation reserves the right to specify the format of the transaction details as well as the medium through which they are communicated to the Corporation.
- (3) The Corporation shall have no obligation for any loss resulting from the untimely submission by an Acceptable Marketplace, or the parties to the transaction, to the Corporation of the information described in Subsection D-108(1).
- (4) For the purpose of OTCI transactions that are Options, the Corporation is not the issuer of those Options.

Section D-109 Position Management

- (1) A Long Position or a Short Position in OTCI transactions will be created upon the Corporation's acceptance of such OTCI transaction and the resulting Open Positions will be managed in accordance with the Rules.
- (2) For OTCI transactions that are Options of the same Series of Options, the Corporation will maintain and report the Clearing Member's net position, keeping in consideration the following:
- (a) The Long Position or Short Position shall be reduced by the number of Options of such Series of Options for which the Clearing Member thereafter files an Exercise Notice with the Corporation in such account;
 - (b) The Long Position or Short Position shall be eliminated at the Expiration Time for such Series of Options;
 - (c) The Long Position or Short Position shall be increased by the number of Options of such Series of Options transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
 - (d) The Long Position or Short Position shall be reduced by the number of Options of such Series of Options transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member;
 - (e) The number, or the terms of the Options in the Long Position or Short Position may be adjusted from time to time in accordance with Rule A-9.

Section D-110 Limitation of Liability

For OTCI transactions where there is a Guaranteeing Delivery Agent, the Corporation shall not be responsible for the performance of the obligations related to the OTCI transaction with regards to:

- (a) Delivery of the Underlying Interest;

- (b) Any replacement cost incurred during the delivery period which is due to the non-delivery of the seller specified in the transaction.

Section D-111 General Rights and Obligations of Clearing Members for OTCI

If not otherwise mentioned in these Rules, the rights and obligations of the parties to an OTCI transaction shall be determined in accordance with the practices of the Acceptable Marketplace on which the transaction was concluded.

For the purposes of OTCI transactions which are Options, Section B-110 shall apply to OTCI transactions by making the necessary adaptation to give effect to the original intention of the aforementioned Sections. In making the necessary adaptations it should be considered that Options which are OTCI transactions are not issued by the Corporation.

RULE D-2 MARKING-TO-MARKET

Section D-201 Reference Prices and Forward Curves

The Corporation will determine the Reference Price of each Underlying Interest for each business day. The Corporation reserves the right to use a variety of data sources, including but not limited to, market participants, price reporting agencies and brokers. These individual Reference Prices will be combined to form a Forward Curve for each Underlying Interest. Forward Prices will be extrapolated from the Forward Curve and will be used in the daily mark-to-market and margining processes. The Corporation reserves the right to alter its methodology for Forward Curve construction from time to time.

Section D-202 Mark-To-Market Valuation

The unrealized profit or loss on an OTCI transaction on any given Business Day shall be the net present value of all future cash flows.

The unrealized profit or loss on an OTCI transaction which is an Option on any given Business Day shall be determined by applying standard pricing methodologies appropriate for the Option.

RULE D-3 PHYSICAL DELIVERY OF UNDERLYING INTEREST ON OVER-THE-COUNTER INSTRUMENTS

The Sections of this Rule D-3 shall only apply to physically delivered OTCI, excluding Fixed Income Transactions.

Section D-301 Definitions

Notwithstanding Section A-102 for the purposes of physical delivery of Underlying Interest stemming from OTCI transactions (other than Fixed Income Transactions) the following terms shall have the following meanings respectively:

“Security Funds” – means any additional deposit(s) by a Clearing Member required by the Corporation to be placed with the Corporation to ensure performance of a Clearing Member's obligations and shall be in the same form of deposits accepted by the Corporation pursuant to Section A-608.

“Time of Delivery” – means the time by which a Clearing Member must make delivery of, or accept delivery of and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

Section D-302 Delivery Through the Corporation

Unless otherwise specified by the Corporation, delivery of the Underlying Interest and payment thereof shall be made through the Corporation pursuant to the forms and procedures prescribed by it, having regard to the OTCI specifications referred to in Rule D-4 as well as of the practices of the regional market where the transaction was concluded or with the operating policies and procedures of the Corporation then in effect.

Section D-303 Delivery Process

In all cases, the Corporation will generate Net Delivery Requirements arising from positions in OTCI transactions up to and including the next business day transactions held by Clearing Members and their respective clients. These Net Delivery Requirements are to be provided to the Delivery Agent responsible for dispatching the Underlying Interest to the transacting parties in the form specified by the aforementioned Delivery Agent.

- (1) In the presence of a Guaranteeing Delivery Agent, the Corporation shall be exclusively responsible for the dissemination of Net Delivery Requirements to the Guaranteeing Delivery Agent and will bear no responsibility for the replacement of the Underlying Interest in the event that the seller fails to perform on the delivery obligation as specified under the terms of the OTCI transactions. The Corporation will, however, bear the responsibility of guaranteeing the Settlement Amounts derived from the delivery process.
- (2) For Underlying Interests which are not delivered via a Guaranteeing Delivery Agent, the Corporation is exclusively responsible for the dissemination of the Net Delivery Requirements to the Delivery Agent, the replacement of the Underlying Interest in the event that the seller fails to perform on the delivery obligation as well as guaranteeing final settlement under the terms of the OTCI transaction.

Section D-304 Failure to Deliver or to Accept Delivery

The consequences of a failure to deliver (a “Failed Delivery”) or to accept delivery on the part of a Clearing Member or its respective client will depend on the convention of the Market Centre applicable to the OTCI.

- (1) Market Centre serviced by a Guaranteeing Delivery Agent:
- (2) In the event of non-delivery and/or non-acceptance of delivery by the Clearing Member or its client, the Clearing Member shall not be considered Non-Conforming by the Corporation. If the Clearing Member subsequently fails to settle with the Guaranteeing Delivery Agent or fails to remedy its client’s failure to settle with the Guaranteeing Delivery Agent, the Clearing Member will be considered Non-Conforming by the Corporation. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect payment to or otherwise settle with, the receiving and/or delivering Clearing Member.
- (3) Market Centre not serviced by a Guaranteeing Delivery Agent:

If a Clearing Member or its client who is required to make delivery under Section D-303 fails to complete such delivery by the time required for delivery in these Rules, the Clearing Member will be considered a Non-Conforming Member. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect delivery to or otherwise settle with, the receiving Clearing Member. Without limiting the generality of the foregoing, the Corporation may acquire and deliver the Underlying Interest to the receiving Clearing Member, reimburse or pay to the receiving Clearing Member any additional financial costs incurred as a result of the receiving Clearing Member acquiring the Underlying Interest on the open market, enter into an agreement with the receiving Clearing Member and the delivering Non-Conforming Member relating to the Failed Delivery, and/or take such other action as the Corporation may, in its absolute discretion, deem appropriate or necessary in order to ensure that a Non-Conforming Member’s obligations are fulfilled. In the event the cost of effecting delivery to, or otherwise settling with, the receiving Clearing Member exceeds the Settlement Amount at which the delivery was to be made, the Non-Conforming Member shall be liable for and shall promptly pay to the Corporation or the receiving Clearing Member as the case may be, the amount of such difference.

Section D-305 Penalties and Restrictions

- (1) As described in Rule A-5, the Board shall set by resolution, from time to time, the penalties payable in the event that a Clearing Member fails to make delivery or fails to accept delivery and make payment when required to do so in accordance with these Rules; provided, however, that the penalty for any single failure shall not exceed \$250,000. The amount of these penalties shall be in addition to any other sanctions that may be imposed by the Corporation under the Rules in respect of such a default. If a Clearing Member fails to make delivery or accept delivery and make payment, as required under these Rules, such penalty shall be assessed against it commencing as of the Time of Delivery and continuing until the Non-Conforming Member's obligations to the Corporation are fulfilled or the Non-Conforming Member is suspended, whichever is the sooner.
- (2) Where at the Time of Delivery a delivering Clearing Member fails to make delivery or a receiving Clearing Member fails to accept delivery and make payment and becomes a Non-Conforming Member the Non-Conforming Member's clearing activities shall immediately be restricted to closing

transactions as defined in these Rules, unless the Corporation determines that it is not necessary to impose such restriction, in whole or in part. This restriction shall continue until the Non-Conforming Member deposits Security Funds with the Corporation in accordance with Sections D-307 and D-308, or, if such funds are not deposited, until otherwise determined by the Chairperson of the Board and any two directors. Nothing in this Subsection D-305(2) shall prevent the Corporation from immediately suspending a Non-Conforming Member.

Section D-306 Notification of Failure to Effect Delivery/Effect Payment

The Corporation shall report a Non-Conforming Member, and all circumstances surrounding the transaction that the Corporation deems relevant, to any appropriate self regulatory agency or regulatory agency, and to any other Entity considered appropriate or necessary by the Corporation. Such notice may include, but is not restricted to, the following information:

the identities of the delivering Clearing Member and the receiving Clearing Member;

- (a) the notional value of the transaction;
- (b) the Underlying Interest to be delivered;
- (c) the settlement amount; and
- (d) any other information considered appropriate or relevant by the Corporation.

Section D-307 Deposit of Security Funds

In the event where the failure of delivery originates from an OTCI transaction applying to a Market Centre not served by a Guaranteeing Delivery Agent, the following shall apply:

- (1) Where a Non-Conforming Member has defaulted on the delivery of an Underlying Interest, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds in an amount equal to not less than 105% of the market value of the Underlying Interest to be delivered. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section D-305, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or the payment of costs incurred by the Corporation in connection with the Non-Conforming Member's default, and does not preclude the suspension of such Non-Conforming Member pursuant to Section A-1A05, or the assessment of additional sanctions under Rule A-4 and Rule A-5.
- (2) Where a Non-Conforming Member has failed to accept the delivery of an Underlying Interest and make payment thereof, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds equal to the settlement value, or, in the absolute discretion of the Corporation, in an amount equal to the difference between the liquidating value of the Underlying Interest and the settlement value, or such other amount as the Corporation may determine. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section D-305, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or payment of costs incurred by the Corporation

in connection with the Non-Conforming Member's default, and does not preclude the suspension of such Non-Conforming Member pursuant to Section A-1A05, or the assessment of additional sanctions under Rule A-4 and Rule A-5.

- (3) Subject to Subsection A-701(3), the Security Funds deposited by a Non-Conforming Member shall be used, together with other Margin Deposits of the Non-Conforming Member, by the Corporation to effect delivery of or make payment in respect of the Underlying Interest, or otherwise meet the Corporation's obligations in respect of the transaction, or for any of the other purposes set forth in Subsection A-701(2).
- (4) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing exceeds the Security Funds (if any) deposited under Subsection D-307(3), and the Non-Conforming Member's Margin or Clearing Fund deposits, the Non-Conforming Member shall be liable to and shall promptly pay the Corporation the amount of the excess, in addition to any penalties and other sanctions that may be assessed, and the Corporation's reasonable expenses, including legal fees.
- (5) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing is less than the Security Funds (if any) deposited under Subsection D-307(3), any excess, less all assessed penalties and reasonable expenses, including legal fees, incurred by the Corporation, will be promptly returned to the Non-Conforming Member.

Section D-308 Other Powers of the Corporation

Notwithstanding the foregoing, the Corporation shall have the power to require a Non-Conforming Member to deposit such other funds or Security as the Corporation may, in its discretion, determine is necessary or advisable given the nature and value of the Underlying Interest and all of the circumstances of the failed OTCI transaction. A Non-Conforming Member shall cooperate fully with the Corporation in respect of the failed OTCI transaction and shall promptly provide the Corporation with such information relating thereto and to the Non-Conforming Member, as the Corporation may request.

Section D-309 Suspension and Other Disciplinary Action

Notwithstanding any penalties or restrictions imposed on the Non-Conforming Member pursuant to Section D-305, the Corporation may suspend or impose the sanctions provided for in Section A-1A04 and Rules A-4 and A-5 on a Non-Conforming Member.

Section D-310 Force Majeure or Emergency

If delivery, delivery acceptance, settlement, or any precondition or requirement of these is prevented by *force majeure* or an Emergency of a Delivery Agent, Market Centre or a Central Securities Depository, the affected Clearing Member shall immediately notify the Corporation. The Corporation shall take such action as it deems necessary under the circumstances and its decision shall be binding upon all parties to the OTCI transaction. Without limiting the generality of the foregoing, the Corporation may modify the Settlement Time and/or the Settlement Date; designate alternate or new Market Centres; designate alternate or new procedures in the event of conditions interfering with the normal operations of a Delivery Agent or delivery and settlement process; and/or fix a Reference Index Price(s) as such term is defined in D-4 and D-5 below.

RULE D-4 PHYSICALLY SETTLED OVER-THE-COUNTER INSTRUMENTS

The Sections of this Rule D-4 are applicable only to OTCI settling on a future date where the Underlying Interest is physically deliverable, excluding Fixed Income Transactions.

Section D-401 Definitions

Notwithstanding Section A-102 for the purposes of OTCI transactions, the following terms are as defined:

- “Baseload” - refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 24 for Sunday through to Monday inclusive.
- “Index Instrument” - an OTCI in which two contracting parties, a buyer and a seller, agree to exchange a fixed quantity of the Underlying Interest at a set time in the future for the then prevailing Reference Index price plus or minus a fixed basis.
- “Instrument Type” - the attribute of the OTCI which describes the time period over which delivery occurs for the Underlying Interest as specified under the terms of the OTCI.
- “Fixed Price” - is the contract price specified in the OTCI transaction. However, in the case of OTCI transactions which are Options sometimes referred to as the Exercise Price.
- “Forward Instrument” - an OTCI in which two contracting parties, a buyer and a seller, agree to exchange a fixed quantity of the Underlying Interest at a set time in the future, for a set Fixed Price.
- “MWh” - means mega-watt hour.
- “NERC” - means North American Electric Reliability Council.
- “On-Peak” - refers to the Profile of electricity which is to be delivered over the period of hour-ending 08 through hour-ending 23 for Monday through to Saturday inclusive.
- “Off-Peak” - refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 07 plus hour-ending 24 between Monday to Saturday inclusive plus hour-ending 01 through hour-ending 24 on Sundays as well as any other days classified as Off-Peak in accordance with the standard NERC operating calendar.
- “Profile” - the Commodity sub-type or grade specified as to be delivered under the terms of the OTCI.

“Reference Index” -	the index specified under the terms of an OTCI used to measure the value of a related Underlying Interest at a moment in time specified under the terms of the OTCI.
“Reference Index Price” -	the value of the Reference Index determined by the Corporation at the time of a specific Reset.
“Reset Frequency” -	the elapsed time interval between successive resets of a Reference Index.
“Settlement Date” -	unless otherwise specified, shall be the day a payment is made under the terms of the OTCI. This day shall be determined by the Corporation and will depend on the Underlying Interest, Settlement Type and the Settlement Rule of the OTCI as well as the practices of the relevant Acceptable Marketplace.
“Settlement Period” -	unless otherwise specified, shall be the period of the 1 st calendar day until the last calendar day of every month.
“Settlement Rule” -	will be either current month (CM) or following month (FM) as outlined in the OTCI specifications.
“Settlement Type”	physically settled.
“Spread” -	the fixed price to be added or subtracted from the floating leg of an OTCI transaction.
“Unit of Measure” -	the standard volumetric measurement quantity related to a particular Commodity.

Section D-402 Over-The-Counter Instruments (OTCI) Acceptable for Clearing with the Corporation

The Corporation shall issue, from time-to-time, a list of parameters defining the OTCI transactions that are acceptable for clearing with the Corporation.

Section D-403 Final Settlement Through the Corporation

(1) Physically Settled OTCI where the Underlying Interest is a Commodity

Unless otherwise specified by the Corporation, settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and will occur on the Settlement Date as defined in these Rules.

Settlement shall be made by an exchange of cash against the delivery of the Underlying Interest between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount to be paid or received in final settlement of:

- (a) A Forward Instrument is
- the Notional Quantity multiplied by the

- Fixed Price multiplied by the
 - number of days specified in the Instrument Type which are coincident with the Settlement Period multiplied by the
 - number of hours specified in the Profile (if applicable)
- as specified under the terms of the OTCI transaction.

(b) An Index Instrument is

- the Notional Quantity multiplied by the
 - Reference Index Price for every calendar day and hour (if applicable) specified by the Instrument Type and Profile coincident with the Settlement Period
- as specified under the terms of the OTCI transaction.

(2) Physically Settled OTCI where the Underlying Interest is a Security

Unless otherwise specified by the Corporation, settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and will occur on the Settlement Date as defined in these Rules.

Settlement shall be made by an exchange of cash against the delivery of the Underlying Interest between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount to be paid or received in final settlement of a Forward Instrument or Option is:

- the Notional Quantity multiplied by the
- Fixed Price.

Section D-404 Unavailability or Inaccuracy of Reference Index Price

- (1) If the Corporation shall determine that the Reference Index Price for an Underlying Interest is unreported or otherwise unavailable for purposes of calculating the Settlement Amount, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
- (a) suspend payment of the Settlement Amount. At such times as the Corporation determines that the required Reference Index Price is available, the Corporation shall fix a new date for Settlement;
 - (b) fix the Reference Index Price in accordance with the best information available.
- (2) The published Reference Index Price shall be deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Reference Index Price, it may take such action as it determines in its discretion to be fair and appropriate in the



circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Reference Index Price to be used for settlement purposes.

Section D-405 Payment and Receipt of Settlement Amount

The Settlement Amount will be included with other settlements on the daily Consolidated Activity Report on the Settlement Date which is appropriate for the OTCI.

Section D-406 Instrument Specifications

The generic specifications for each OTCI transaction acceptable for clearing by the Corporation are summarized as follows:

Underlying Interest

Market Centre

Product Type

Type of Option

Instrument Type/Expiration

Profile

Exercise Rule

Exercise Price/Fixed Price

Basis

Settlement Type

Unit of measure/Unit of Trading

Settlement Currency

Settlement Rule

Reference Index

Reset Frequency

Notional Quantity



Each OTCI transaction which the Corporation deems acceptable for clearing will be defined by a subset of the above parameters. In accordance with Section D-402, the Corporation will publish, from time to time, a list of acceptable parameters corresponding to these generic specifications.

RULE D-5 FINANCIALLY SETTLED OVER-THE-COUNTER INSTRUMENTS

The Sections of this Rule D-5 are applicable only to OTCI settling on a future date where the Underlying Interest is financially settled.

Section D-501 Definitions

Notwithstanding Section A-102 for the purposes of OTCI, the following terms are defined as follows:

- “AESO” - means Alberta Electric System Operator.
- “APP” - means Alberta Power Pool and represents the Reference Index as computed by AESO.
- “Baseload” - refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 24 for Sunday through to Monday inclusive.
- “Basis Swap” - is a type of swap transaction whereby cash flows are exchanged at predetermined future dates; these cash flows are determined by two floating rates, namely Reference Index (1) and Reference Index (2), where both Reference Indices are expressed according to the same Unit of Measure and currency.
- “Fixed Price” - is the contract price specified in the OTCI transaction. However, in the case of OTCI transactions which are Options sometimes referred to as the Exercise Price.
- “Fixed-Rate Payer” - refers to a contracting party to a Swap transaction charged with paying a fixed rate specified under the terms of the OTCI transaction.
- “Fixed Swap” - is a type of swap transaction whereby cash flows are exchanged at future dates; cash flows are determined by one fixed rate and one floating rate (Reference Index (1)), where both the fixed rate and Reference Index (1) are expressed according to the same Unit of Measure and currency.
- “Floating-Rate Payer” - refers to the contracting party in a Swap transaction that is charged with paying a floating rate specified under the terms of the OTCI transaction, where the floating rate is the value of the Reference Index specified under the terms of the OTCI.
- “Gj” - means Giga-joule or 1,000,000,000 Joules.
- “Instrument Type” - the attribute of the OTCI which describes the time period over which delivery occurs for the Underlying Interest as specified under the terms of the OTCI.
- “MMBtu” - means a million British Thermal Units.

- “MWh” - means mega-watt hour or 1,000,000 Watt hour.
- “NERC” - means North American Electric Reliability Council.
- “Off-Peak” - refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 07 plus hour-ending 24 between Monday to Saturday inclusive plus hour-ending 01 through hour-ending 24 on Sundays as well as any other days classified as Off-Peak in accordance with the standard NERC operating calendar.
- “On-Peak” - refers to the Profile of electricity which is to be delivered over the period of hour-ending 08 through hour-ending 23 for Monday through to Saturday inclusive.
- “Profile” - is the Commodity sub-type or grade specified as to be delivered under the terms of the OTCI.
- “Reset Frequency” - is the elapsed time interval between successive Resets of a Reference Index.
- “Reference Index” - is the index specified under the terms of an OTCI used to measure the value of a related Underlying Interest at a moment in time specified under the terms of the OTCI.
- “Reference Index Price” - is the value of the Reference Index determined by the Corporation at the time of a specific Reset.
- “Settlement Date” - unless otherwise specified, shall be the day a payment is made under the terms of the OTCI. This day shall be determined by the Corporation and will depend on the Underlying Interest, Settlement Type and the Settlement Rule of the OTCI as well as the practices of the relevant Market Centre.
- “Settlement Period” - means, unless otherwise specified, the period of the 1st calendar day until the last calendar day of every month.
- “Settlement Rule” - will be either current month (CM) or following month (FM) as outlined in the OTCI specifications.
- “Settlement Type” - financially settled.
- “Spread” - means the fixed price to be added or subtracted from the floating leg of an OTCI transaction.
- “Swap” - means a derivative transaction which involves two contracting parties exchanging cash flows at some point in time in the future.
- “Unit of Measure” - means the standard volumetric measurement quantity related to a particular Commodity.

Section D-502 Over-The-Counter Instruments (OTCI) Acceptable for Clearing with the Corporation

The Corporation shall issue, from time to time, a list of parameters defining the OTCI transactions that are acceptable for clearing with the Corporation.

Section D-503 Final Settlement Through the Corporation

(1) Financially Settled OTCI where the Underlying Interest is a Commodity

Unless otherwise specified by the Corporation, settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and will occur on the Settlement Date. Settlement shall be made by an exchange of cash between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount to be paid or received in final settlement of:

(a) A Fixed Swap is determined by:

- the Notional Quantity multiplied by the
- difference between the Reference Index Price and the fixed rate multiplied by the
- number of days specified in the Instrument Type which are coincident with the Settlement Period multiplied by the
- number of hours in the Profile (if applicable)

as specified under the terms of the OTCI transaction.

(b) A Basis Swap is determined by:

- the Notional Quantity multiplied by the
- difference between Reference Index Price (1) and Reference Index Price (2) multiplied by the
- number of days ~~in~~ as specified in the Instrument Type which are coincident with the Settlement Period multiplied by the number of hours in the Profile (if applicable)

as specified under the terms of the OTCI transaction.

(2) Financially Settled OTCI where the Underlying Interest is a Security

(a) A Call Option is determined by:

- the Notional Quantity multiplied by the
- difference between the Reference Index Price and the Exercise Price, if positive, as specified in the OTCI transaction.

- (b) A Put Option is determined by:
- the Notional Quantity multiplied by the
 - difference between the Exercise Price and the Reference Index Price, if positive, as specified in the OTCI transaction.

Section D-504 Unavailability or Inaccuracy of Reference Index Price

- (1) If the Corporation shall determine that the Reference Index Price for an Underlying Interest is unreported or otherwise unavailable for purposes of calculating the Settlement Amount, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
- (a) suspend payment of the Settlement Amount. At such times as the Corporation determines that the required Reference Index Price is available, the Corporation shall fix a new date for settlement;
- (b) fix the Reference Index Price in accordance with the best information available.
- (2) The published Reference Index Price shall be deemed to be accurate except where the Corporation determines in its discretion that there is a material inaccuracy in the reported Reference Index Price. In such a case, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Reference Index Price to be used for settlement purposes.

Section D-505 Payment and Receipt of Settlement Amount

The Settlement Amount will be included with other settlements on the daily Consolidated Activity Report on the Settlement Date which is appropriate for the OTCI.

Section D-506 Instrument Specifications

The generic specifications for each OTCI acceptable for clearing by the Corporation are summarized as follows:

Underlying Interest

Market Centre

Product Type

Type of Option

Instrument Type/Expiration

Profile



Exercise Rule

Exercise Price/Fixed Price

Basis

Settlement Type

Unit of measure/Unit of Trading

Settlement Currency

Settlement Rule

Reference Index

Reset Frequency

Notional Quantity

Each OTCI which the Corporation deems acceptable for clearing will be defined by a subset of the above parameters. In accordance with Section D-502, the Corporation will publish, from time to time, a list of acceptable parameters corresponding to these generic specifications.

RULE D-6 CLEARING OF FIXED INCOME TRANSACTIONS

The Sections of this Rule D-6 are applicable only to the clearing of Fixed Income Transactions by the Corporation and to those Clearing Members who are required to make a base deposit to the Clearing Fund for Fixed Income Clearing as set out in Paragraph A-601(2)(d).

Section D-601 Definitions

Notwithstanding Section A-102, for the purposes of Fixed Income Clearing, the following terms are defined as follows:

“Accrued Coupon Income” – with respect to a Repurchase Transaction, the Coupon Income paid by an issuer of Purchased Securities and held by a Net Buyer under Paragraph D-606(9)(b) plus the accrued interest on such Coupon Income calculated at the Repo Rate for such Repurchase Transaction for the period from and including the date such Coupon Income was paid by such issuer up to and excluding the Repurchase Date.

“Accrued Coupon Value” – with respect to any Purchased Security, the proportion of the Coupon Income payable by the issuer of the relevant Security on the next Coupon Payment Date corresponding to the number of days that have elapsed since the immediately preceding Coupon Payment Date up to the applicable calculation date [calculated based on a calendar year of 365 days].

“Afternoon Net DVP Settlement Requirement” – means a settlement instruction sent to the Central Securities Depository at the Afternoon Netting Cycle Timeframe netting all then Pending Settlement Requirements between a Clearing Member and the Corporation, in accordance with Paragraph D-606(11)(b).

“Afternoon Netting Cycle Timeframe” – means the time specified in the Operations Manual at which the Corporation nets all then Pending Settlement Requirements into Afternoon Net DVP Settlement Requirements, in accordance with Paragraph D-606(11)(b).

“Cash Buy or Sell Trade” – a transaction by which a Fixed Income Clearing Member buys (Cash Buy Trade) or sells (Cash Sell Trade) an Acceptable Security.

“Close Leg” – means, with respect to a Repurchase Transaction, the second part of a Repurchase Transaction where either (i) a Repo Party agrees to buy back Acceptable Securities from a Reverse Repo Party at a Repurchase Price to be paid by the Repo Party to the Reverse Repo Party, or (ii) a Reverse Repo Party agrees to sell back Acceptable Securities to a Repo Party at a Repurchase Price to be paid to the Reverse Repo Party by the Repo Party.

“CORRA Rate” – The weighted average of rates on overnight general collateral repo transactions conducted through designated interdealer bond brokers between 06:00 and 16:00, as determined by the Bank of Canada.

“Coupon Income” – the interest amount payable to the holder of a Security by its issuer on a Coupon Payment Date.

“Coupon Payment Date” – a date on which the issuer of a Security pays Coupon Income to the holder of the Security.

~~“Deferred Settlement Transaction” means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having a Purchase Date later than the Trade Date, or a Close Leg of a Repurchase Transaction.~~

~~“End of Day DVP Settlement Time” – means the time specified in the Operations Manual at which the Fixed Income Clearing Member must have satisfied all its Afternoon Net DVP Settlement Requirements and any Gross Delivery Requirements and Gross Payment Against Delivery Requirements resulting from Same Day Transactions submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, in accordance with Paragraph D-606(11)(c).~~

“Economic Terms” – means the transactional details of a Fixed Income Transaction as set out in Subsection D-603(1).

“Equivalent Security” – an Acceptable Security that is equivalent to the Purchased Security in that it is of the same issuer, part of the same issue, of an identical type, nominal value, description and (except where otherwise specified by the Corporation) amount as the Purchased Security.

~~“Expected Novation Date” – the date on which a Fixed Income Transaction is submitted by the Fixed Income Clearing Members and on which they wish that the Corporation will accept it for clearance.~~

“Fixed Income Clearing” – the provision of clearing services by the Corporation of Fixed Income Transactions.

“Fixed Income Clearing Member” – an applicant which meets the criteria set out in Section A – 1A01 and Subsection A-301(3) and is approved by the Corporation for Fixed Income Clearing.

“Fixed Income Transaction(s)” – Repurchase Transaction(s) and/or Cash Buy or Sell Trade(s).

“Floating Price Rate” – means, in respect of a Repurchase Transaction, the overnight index swap (“OIS”) rate as published by Bloomberg for a term that is the same as the Term of such Repurchase Transaction (and if an OIS rate is not available for the applicable Term, such Floating Price Rate will be determined by interpolating the OIS rate between the two terms published by Bloomberg that are closest to the applicable Term), as determined by the Corporation in accordance with its customary practices for purposes of calculating mark-to-market payments and margin payments. For the purposes of this definition, “Term” shall mean the remaining number of days between the applicable calculation date and the Repurchase Date of the relevant Repurchase Transaction.

~~“Intra Day Gross Settlement Cut-Off Time” means, in respect of Same Day Transactions, the time specified in the Operations Manual at which the Corporation cancels certain instructions sent to the Central Securities Depository with respect to Gross Delivery Requirements and/or Gross Payment Against Delivery Requirements that remain unsettled at such time, and replaces them with new instructions, in accordance with Subsection D-606(10).~~

~~“Forward Settlement Transaction” – means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having a Purchase Date later than the Novation Date, or a Close Leg of a Repurchase Transaction.~~

“Market Value” – with respect to any Purchased Securities as of any time on any date, the current price as of such date for the relevant Purchased Securities as determined by the Corporation on the basis of then

available price source quotations or alternative market information, as determined by the Corporation plus the Accrued Coupon Value in respect of such Purchased Securities to the extent not included in such current price.

~~“MTM Repo Rate Payment” — represents a mark-to-market payment made in respect of a change in the current Floating Price Rate and means, in respect of a Repurchase Transaction, an amount that is payable to the Corporation by a Fixed Income Clearing Member that is a party to such Repurchase Transaction, or by the Corporation to a Fixed Income Clearing Member that is a party to such Repurchase Transaction, due to changes in the Floating Price Rate from the last time a MTM Repo Rate Payment was calculated (the “Previous Floating Price Rate”) in respect of such Repurchase Transaction (or, in the case of the first such calculation, due to changes in the Repo Rate initially agreed between the parties), by comparing the Previous Floating Price Rate or the Repo Rate, as the case may be, to the then current Floating Pricing Rate.~~

“Morning Net DVP Settlement Timeframe” – means the timeframe specified in the Operations Manual during which the Fixed Income Clearing Member must have available funds in its cash account at the Central Securities Depository to settle the lesser of (i) its Morning Net Payment Against Delivery Requirement, and (ii) the amount of the CDCC Daylight Credit Facility, in accordance with Paragraph D-606(11)(c).

“Morning Net Payment Against Delivery Requirement” – means a settlement instruction sent to the Central Securities Depository at the Morning Netting Cycle Timeframe netting all then Pending Payment Against Delivery Requirements between a Clearing Member and the Corporation, in accordance with Paragraph D-606(11)(a).

“Morning Netting Cycle Timeframe” – means the timeframe specified in the Operations Manual during which the Corporation nets all then Pending Payment Against Delivery Requirements into Morning Net Payment Against Delivery Requirements, in accordance with Paragraph D-606(11)(a).

“MTM Repo Rate Payment” – represents a mark-to-market payment made in respect of a change in the current Floating Price Rate and means, in respect of a Repurchase Transaction, an amount that is payable to the Corporation by a Fixed Income Clearing Member that is a party to such Repurchase Transaction, or by the Corporation to a Fixed Income Clearing Member that is a party to such Repurchase Transaction, by comparing the Floating Price Rate to the Repo Rate.

“N-Day Term Repurchase Transaction” – means a Repurchase Transaction with a term longer than one Business Day.

“Net Buyer” – a Fixed Income Clearing Member whose aggregate net sum of Net Funds Transfer Requirement, Net Funds Reversal Requirement, any applicable Postponed Payment Obligation(s) and any other payment obligation against delivery of an Acceptable Security due by such Fixed Income Clearing Member to the Corporation on a given Business Day are greater than the aggregate net sum of Net Funds Transfer Requirement, Net Funds Reversal Requirement, any applicable Postponed Payment Obligation(s) and any other payment obligation against delivery of an Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Business Day, as determined by the Corporation pursuant to Paragraph A-801(2)(bc).

“Net Delivery Obligation” – in respect of a Fixed Income Clearing member, the quantity of a given Acceptable Security which is the aggregate net quantity of any Net Securities Transfer Requirement

deliverable by or to such Fixed Income Clearing Member to or by the Corporation and any Net Securities Reversal Requirement deliverable by or to such Fixed Income Clearing Member to or by the Corporation, and any Rolling Delivery Obligation deliverable by or to such Fixed Income Clearing Member to or by the Corporation, as the case may be, with respect to such Acceptable Security, on a given Business Day, calculated in accordance with Subsection D-606(3).

“Net Funds Transfer Requirement” – the amount which is the aggregate net sum of Purchase Prices payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(1).

“Net Funds Reversal Requirement” – the amount which is the aggregate net sum of Repurchase Prices payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(2).

“Net MTM Repo Rate Payment” – means, on any day the amount which is the aggregate net sum of all MTM Repo Rate Payments payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(5).

~~“Net MTM Reversal Requirement” – means in respect of a Fixed Income Clearing Member on any day, the amount which is the aggregate net sum of (i) all Net MTM Repo Rate Payments made by such Fixed Income Clearing Member in respect of its Repurchase Transactions, net of (ii) all Net MTM Repo Rate Payments made to such Fixed Income Clearing Member in respect of its Repurchase Transactions.~~

“Net MTM Reversal Requirement” – means, on any day, the previous Business Day’s Net MTM Repo Rate Payment made by the Fixed Income Clearing Member to the Corporation or by the Corporation to the Fixed Income Clearing Member, as the case may be, to be returned in accordance with Subsection D-606(6).

“Net OCF MTM Payment” – means, on any day, the amount which is the aggregate net sum of all OCF MTM Payments payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(7).

“Net Payment Obligation” – in respect of a Fixed Income Clearing Member, the amount which is the aggregate net sum of any Net Funds Transfer Requirement payable by or to such Fixed Income Clearing Member to or by the Corporation and any Net Funds Reversal Requirement payable by or to such Fixed Income Clearing Member to or by the Corporation, and any Postponed Payment Obligation due and payable by or to such Fixed Income Clearing Member to or by the Corporation, as the case may be, on a given Business Day, calculated in accordance with Subsection D-606(3).

“Net Seller” – a Fixed Income Clearing Member whose aggregate net quantity of Net Securities Transfer Requirement, Net Securities Reversal Requirement, any applicable Rolling Delivery Obligation(s) and any other delivery obligation in respect of a given Acceptable Security due by such Fixed Income Clearing Member to the Corporation on a given Business Day are greater than the aggregate net quantity of Net Securities Transfer Requirement, Net Securities Reversal Requirement, any applicable Rolling Delivery Obligation(s) and any other delivery obligation in respect of a given Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Business Day, as determined by the Corporation pursuant to Paragraph A-801(2)(ed).

“Net Securities Transfer Requirement” – the aggregate net quantity of an Acceptable Security due by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(1).

“Net Securities Reversal Requirement” – the aggregate net quantity of an Acceptable Security due by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(2).

~~“OCF MTM Payment” — represents an opportunity cost of funds payment in respect of an MTM Repo Rate Payment made and means, with respect to any Repurchase Transaction on any calculation date and in respect of all MTM Repo Rate Payments made by or to a Fixed Income Clearing Member in respect of such Repurchase Transaction, “Novation Date” – the date on which a Fixed Income Transaction is accepted by the Corporation for clearance subject to conditions set forth herein, provided that (i) for a Forward Settlement Transaction, if the Expected Novation Date is not a Business Day or the Fixed Income Transaction is submitted after the Netting Cut-Off Time on that Business Day, the Novation Date shall be deemed to be the immediately following Business Day; and (ii) for a Same Day Transaction, if the Expected Novation Date is not a Business Day or the Same Day Transaction is submitted after the Submission Cut-Off Time on a date that is a Business Day, the Corporation will not accept the Same Day Transaction for clearing.~~

“OCF MTM Payment” – represents an opportunity cost of funds payment in respect of an MTM Repo Rate Payment made and means, with respect to any Repurchase Transaction on any calculation date, an amount equal to one day’s interest, calculated by the applying the CORRA Rate determined on such calculation date (provided if such calculation date is not a Business Day, on the immediately following Business Day) to such MTM Repo Rate Payment on a 365 day basis, provided that if such Fixed Income Clearing Member had to pay an MTM Repo Rate Payment, the interest amount calculated in respect of such MTM Repo Rate Payment shall be payable by the Corporation to the Fixed Income Clearing Member, and if such Fixed Income Clearing Member received an MTM Repo Rate Payment, the interest amount calculated in respect of such MTM Repo Rate Payment shall be payable by the Fixed Income Clearing Member to the Corporation.

“Open Leg” – means, with respect to a Repurchase Transaction, the first part of a Repurchase Transaction where either (i) a Repo Party agrees to sell Acceptable Securities to a Reverse Repo Party at a Purchase Price to be paid by the Reverse Repo Party to the Repo Party, or (ii) a Reverse Repo Party agrees to buy Acceptable Securities from a Repo Party at a Purchase Price to be paid to the Repo Party by the Reverse Repo Party.

“OTCI Clearing Platform” – the dedicated trade input screens for clearing and settlement of OTCI operated and/or used by the Corporation.

“Pending Delivery Requirements – any Gross Delivery Requirements and/or any Net Delivery Requirements which are due on such Business Day and have not yet settled at the Afternoon Netting Cycle Timeframe.

“Pending Payment Against Delivery Requirements” – any Net Payment Against Delivery Requirement and/or any Gross Payment Against Delivery Requirements which are due on such Business Day and have not yet settled at the Morning Netting Cycle Timeframe, or any Morning Net Payment Against Delivery Requirement and/or Gross Payment Against Delivery Requirements which are due on such Business Day and have not yet settled at the Afternoon Netting Cycle Timeframe, as the case may be.

“Pending Settlement Requirements” – collectively any Pending Delivery Requirements and/or any Pending Payment Against Delivery Requirements at the Afternoon Netting Cycle Timeframe.

“Price Differential” – with respect to any Repurchase Transaction, an amount payable by the Repo Party equal to an amount obtained by application of the Repo Rate for such Repurchase Transaction to the Purchase Price for such Repurchase Transaction (on a 365 day basis), for the actual number of days of the term of such Repurchase Transaction.

“Purchase Date” – with respect to any Repurchase Transaction, the date on which Purchased Securities are sold by the Repo Party to the Corporation and by the Corporation to the Reverse Repo Party; and with respect to any Cash Buy or Sell Trade, the date on which it settles, provided that if such date is not a Business Day, the Purchase Date shall be the immediately following ~~day~~Business Day.

“Purchase Price” – with respect to any Fixed Income Transaction, the amount at which the Purchased Securities are sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

“Purchased Securities” – with respect to any Fixed Income Transaction, the Acceptable Securities sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

“Quantity of Purchased Securities” – with respect to a Fixed Income Transaction, an amount equal to the Purchase Price for such Fixed Income Transaction on the TradeNovation Date of such Fixed Income Transaction divided by the Market Value per dollar of the Specified Denomination of the relevant Purchased Securities, rounded up to the nearest whole number.

~~“Repurchase Transaction” – A) a trade originally entered into between two Fixed Income Clearing Members which is submitted to the Corporation for clearing in which either (i) a Repo Party agrees to sell Acceptable Securities to a Reverse Repo Party at a Purchase Price to be paid by the Reverse Repo Party to the Repo Party, with a simultaneous agreement by the Repo Party to purchase Equivalent Securities from the Reverse Repo Party at a future date at a Repurchase Price to be paid to the Reverse Repo Party by the Repo Party, or (ii) a Reverse Repo Party agrees to buy Acceptable Securities from a Repo Party at a Purchase Price to be paid to the Repo Party by the Reverse Repo Party, with a simultaneous agreement by the Reverse Repo Party to sell Equivalent Securities to the Repo Party at a future date at a Repurchase Price to be paid by the Repo Party to the Reverse Repo Party, and, as appropriate in the circumstances, B) the Transaction resulting from the novation of the trade described in A) pursuant to Section D-605 of the Rules.~~

“Repo Party” or “Seller” – in respect of a Fixed Income Clearing Member, such Fixed Income Clearing Member who is the seller under a Fixed Income Transaction and who becomes the seller to the Corporation upon acceptance of the Fixed Income Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the seller under a Fixed Income Transaction pursuant to Section D-605. The term “Repo Party” will be used when referring specifically to a Repurchase Transaction, whereas the term “Seller” will be used when referring to a Cash Buy or Sell Trade or to Fixed Income Transactions generally.

“Repo Rate” – with respect to any Repurchase Transaction, the per annum fixed pricing rate agreed by the Repo Party and the Reverse Repo Party.

“Repo Style” – in respect of Coupon Income payments of any Repurchase Transaction, either the US convention that applies as set forth in Paragraph D-606(9)(a), or the Canadian convention that applies as set forth in Paragraph D-606(9)(b).

“Repurchase Date” – with respect to any Repurchase Transaction, a day on which Equivalent Securities are to be sold by a Reverse Repo Party to the Corporation and by the Corporation to a Repo Party, in accordance with Section D-606; provided that if such date is not a Business Day, the Repurchase Date shall be the immediately following Business Day.

“Repurchase Price” – with respect to any Repurchase Transaction, the sum of the Purchase Price and the Price Differential.

“Repurchase Transaction” – A) a trade originally entered into between two Fixed Income Clearing Members which is submitted to the Corporation for clearing in which either (i) a Repo Party agrees to sell Acceptable Securities to a Reverse Repo Party at a Purchase Price to be paid by the Reverse Repo Party to the Repo Party, with a simultaneous agreement by the Repo Party to purchase Equivalent Securities from the Reverse Repo Party at a future date at a Repurchase Price to be paid to the Reverse Repo Party by the Repo Party, or (ii) a Reverse Repo Party agrees to buy Acceptable Securities from a Repo Party at a Purchase Price to be paid to the Repo Party by the Reverse Repo Party, with a simultaneous agreement by the Reverse Repo Party to sell Equivalent Securities to the Repo Party at a future date at a Repurchase Price to be paid by the Repo Party to the Reverse Repo Party, and, as appropriate in the circumstances, B) the Transaction resulting from the novation of the trade described in A) pursuant to Section D-605 of the Rules.

“Reverse Repo Party” or “Buyer” – in respect of a Fixed Income Clearing Member, such Fixed Income Clearing Member who is the buyer of a Fixed Income Transaction and who becomes the buyer to the Corporation upon acceptance of the Fixed Income Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the buyer under a Fixed Income Transaction pursuant to Section D-605. The term “Reverse Repo Party” will be used when referring specifically to a Repurchase Transaction, whereas the term “Buyer” will be used when referring to a Cash Buy or Sell Trade or to Fixed Income Transactions generally.

“Specified Denomination” – with respect to an Acceptable Security, the denomination in which it was issued.

“Same Day Transaction” – means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having the same Trade Novation Date and Purchase Date.

“Submission Cut-Off Time” – means a time specified in the Operations Manual as the deadline on any Business Day for submitting Same-Day Transactions for clearance to the Corporation.

~~“Trade Date” – the date on which a Fixed Income Transaction is submitted to the Corporation for clearance provided that (i) for a Deferred Settlement Transaction, if such date is not a Business Day or the Fixed Income Transaction is submitted after the Netting Cut Off Time on that Business Day, the Trade Date shall be deemed to be the immediately following Business Day; and (ii) for a Same Day Transaction, if such date is not a Business Day or the Same Day Transaction is submitted after the Submission Cut Off Time on a date that is a Business Day, the Corporation will not accept the Same Day Transaction for clearing.~~

Any capitalized term used in this Rule D-6 that is not defined in this Section D-601 shall have the meaning assigned to it in Section A-102.

Section D-602 Paramountcy

In the event of any inconsistency between the provisions of this Rule D-6 and the other provisions of the Rules, the provisions of this Rule D-6 will prevail.

Section D-603 Essential Terms of Fixed Income Transactions

(1) In addition to and not in lieu of the Acceptance Criteria set forth in Section D-104, the following Economic Terms of a Fixed Income Transaction shall be required to be submitted to the Corporation:

- Seller
- Buyer
- Purchased Securities (CUSIP/ISIN)
- Quantity of Purchased Securities
- ~~Trade~~Expected Novation Date
- Purchase Price
- Purchase Date
- Repurchase Date (as applicable)
- Repo Rate (as applicable)
- ~~Substitution~~Repo Style (indicate whether applicable it is a US or ~~not~~)
- ~~Coupon Income (indicate whether payable when received, or payable only on Canadian style~~ Repo Purchase Date Transaction, as applicable).

(2) Subject to conditions set forth herein, once a Trade Confirmation has been issued by the Corporation, the Corporation shall assume the position of the Seller and become a seller to Buyer and shall assume the position of the Buyer and become the buyer to Seller under all Fixed Income Transactions in each case, as principal to such Fixed Income Transactions, as a result of the novation process set forth in Subsection D-605(3).

(3) On the Purchase Date of each Fixed Income Transaction, the Seller shall transfer the Purchased Securities on such Purchase Date against payment of the Purchase Price by the Buyer. On the Repurchase Date of each Repurchase Transaction, the Reverse Repo Party shall transfer the Equivalent Securities against payment of the Repurchase Price by the Repo Party. The transfer and payment obligations referred to in this provision shall be subject to netting and settlement processes set forth in Section D-606.

(4) Notwithstanding the use of expressions such as “Repurchase Date”, “Repurchase Price”, and “margin” and “substitution” or any other Rule, all right, title and interest (free from liens, claims, charges, encumbrances) in and to the Purchased Securities and Equivalent Securities and money transferred or paid under these Rules shall pass to the party receiving such Purchased Securities, Equivalent Securities and money upon transfer or payment, and no security interest or hypothec is created in the Purchased Securities and Equivalent Securities and money transferred or paid. Each Fixed Income Clearing Member shall execute and deliver all necessary documents and take all necessary steps to procure that all right, title and interest in any Purchased Securities and in any Equivalent Securities shall pass to the party to which transfer is being made upon transfer of the same in accordance with these Rules, free from all liens, claims, charges and encumbrances, and such transfer will not violate any agreement to which such Fixed Income Clearing Member may be a party or by which such Fixed Income Clearing Member’s property may be bound.

(5) For purposes of the *Interest Act* (Canada), if any rate of interest payable under any Fixed Income Transaction is expressed to be calculated on the basis of a period less than a full calendar year, the yearly rate of interest to which such rate is equivalent is the product obtained by multiplying such rate by a fraction, the numerator of which is the actual number of days in the calendar year and the denominator of which is the number of days comprising such other basis.

Section D-604 Trade Reception and Validation

(1) Any Repurchase Transaction or Cash Buy or Sell Trade must be submitted for clearing to the Corporation through an Acceptable Marketplace (whether bilateral or multilateral) or through the CDS trade matching facility. The Corporation may require evidence as it deems reasonably acceptable that a Fixed Income Clearing Member is a duly authorized participant of any multilateral Acceptable Marketplace. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence, or any other act or omission, by the multilateral Acceptable Marketplace or the CDS trade matching facility, as applicable.

(2) Once a Repurchase Transaction or Cash Buy or Sell Trade is received by the Corporation, a variety of validations will occur in accordance with the OTCI Clearing Platform procedure. These validations are designed to ensure that all Economic Terms match and all Acceptance Criteria set forth in Section D-104 are satisfied, and the Corporation does not accept any Repurchase Transaction or Cash Buy or Sell Trade bearing attributes that are determined by the Corporation as not acceptable for clearing. The Corporation will not accept a Repurchase Transaction with a Repurchase Date later than the maturity date of the applicable Purchased Securities.

(3) Any Same Day Transaction submitted after the Submission Cut-Off Time specified in the Operations Manual shall not be accepted by the Corporation for clearance and may be submitted by Fixed Income Clearing Members to the Central Securities Depository independently without being novated to the Corporation. Any **Deferred Forward** Settlement Transaction submitted after the Netting Cut-Off Time specified in the Operations Manual shall be deemed received by the Corporation for clearance on the following Business Day.

(4) If the Acceptable Marketplace used for submitting a Repurchase Transaction or Cash Buy or Sell Trade for clearing is a multilateral facility, each Fixed Income Clearing Member transacting as Buyer or Seller shall be responsible for timely affirming the Fixed Income Transactions on the OTCI Clearing Platform, as directed by the Corporation.

Section D-605 Confirmation and Novation

(1) Once all validations have occurred and the Fixed Income Transactions are either (i) duly affirmed by the Fixed Income Clearing Members on the OTCI Clearing Platform or (ii) received for clearing by the Corporation from the CDS trade matching facility, the Corporation shall issue a Trade Confirmation with respect to each individual Fixed Income Transaction and send it to the transacting Fixed Income Clearing Members. A Fixed Income Clearing Member shall be bound by the terms of a Fixed Income Transaction for which the Corporation has issued a Trade Confirmation in its name. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence or other act or omission by the CDS trade matching facility.

(2) The Corporation shall reject the Repurchase Transaction or Cash Buy or Sell Trade if (i) Economic Terms listed in Section D-603 are determined by the Corporation in its sole discretion as incorrect or incomplete when the Repurchase Transaction or Cash Buy or Sell Trade is submitted to the Corporation by or on behalf of a Fixed Income Clearing Member, or (ii) the Economic Terms submitted by or on behalf of the two Fixed Income Clearing Members that are parties to a Repurchase Transaction or Cash Buy or Sell Trade do not match, or (iii) any other Acceptance Criteria set forth in Section D-104 is not met. Such Repurchase Transaction or Cash Buy or Sell Trade will remain in effect solely between the persons party thereto in accordance with any terms agreed between them, and the Corporation shall have no further obligation or liability with respect to such Repurchase Transaction or Cash Buy or Sell Trade.

(3) Upon the issuance of a Trade Confirmation by the Corporation under Subsection D-605(1) and notwithstanding the fact that the transacting Fixed Income Clearing Members may not have received such Trade Confirmation, the Repurchase Transaction or Cash Buy or Sell Trade shall be automatically novated to the Corporation, such that the original Repurchase Transaction or Cash Buy or Sell Trade between the two Fixed Income Clearing Members is cancelled and replaced by two equivalent Fixed Income Transactions, one between the Seller and the Corporation where the Corporation is substituted as the Buyer, and one between the Buyer and the Corporation where the Corporation is substituted as the Seller. In respect of the Economic Terms, the Fixed Income Clearing Member ~~that is acting as~~ a Seller ~~or a Buyer~~ under such original Repurchase Transaction or Cash Buy or Sell Trade shall have the same rights against, and owe the same obligations to, the Corporation under such Repurchase Transaction or such Cash Buy or Sell Trade to which it is a party as ~~the selling party it~~ had and owed in respect of its counterparty under the original Repurchase Transaction or Cash Buy or Sell Trade, as the case may be. For purposes hereof, a reference to the “same” rights or obligations is a reference to rights or obligations falling due for exercise or performance after the time at which a Trade Confirmation is issued in respect of a Fixed Income Transaction, and which are the same in nature and character as the rights or obligations arising from the Economic Terms of the original Repurchase Transaction or Cash Buy or Sell Trade (it being assumed, for this purpose, that such Repurchase Transaction or Cash Buy or Sell Trade was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Corporation for clearing), notwithstanding the substitution in the person entitled to them or obliged to perform them and subject to any changes thereto as a result of the operation of these Rules.

(4) Fixed Income Clearing by the Corporation is subject to, and contingent upon, the occurrence of the novation described in Subsection 605(3) above. Effective as at the time of such novation, Fixed Income Clearing Members that were parties to the original Repurchase Transaction or Cash Buy or Sell

Trade shall be released and discharged from their respective obligations to each other and the resulting Fixed Income Transactions shall be governed by these Rules.

(5) If a Repurchase Transaction or a Cash Buy or Sell Trade is revoked, voided or otherwise declared invalid for any reason after the Economic Terms of it have been accepted by the Corporation for clearing, that revocation, avoidance or invalidity shall not affect any Fixed Income Transaction arising out of this Section D-605.

Section D-606 Transfers and Payments

(1) In respect of any **Deferred Forward** Settlement Transaction, excluding a Close Leg of a Repurchase Transaction, at the applicable Netting Cut Off Time on a Purchase Date, the Corporation shall calculate with respect to each Fixed Income Clearing Member (i) the Net Securities Transfer Requirement with respect to each Acceptable Security by aggregating the Purchased Securities of such Acceptable Security due by each Fixed Income Clearing Member on such Purchase Date and netting them against the Purchased Securities of such Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Purchase Date, and (ii) the Net Funds Transfer Requirements by aggregating all Purchase Prices due by each Fixed Income Clearing Member to the Corporation and netting them against all Purchase Prices due by the Corporation to such Fixed Income Clearing Member across all its Fixed Income Transactions.

(2) In respect of any Close Leg of a Repurchase Transaction, at the applicable Netting Cut Off Time on each Repurchase Date, the Corporation shall calculate with respect to each Fixed Income Clearing Member (i) the Net Securities Reversal Requirements with respect to each Acceptable Security by aggregating the Equivalent Securities of such Acceptable Security due by each Fixed Income Clearing Member on such Repurchase Date and netting them against the Equivalent Securities of such Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Repurchase Date; and (ii) the Net Funds Reversal Requirements by aggregating all Repurchase Prices less all Accrued Coupon Income deductible pursuant to Paragraph D-606(9)(b), due by each Fixed Income Clearing Member to the Corporation and netting them against all Repurchase Prices less all Accrued Coupon Income deductible pursuant to Paragraph D-606(9)(b), due by the Corporation to such Fixed Income Clearing Member across all of its Repurchase Transactions.

(3) At the applicable Netting Cut Off Time on each Business Day, for each Fixed Income Clearing Member, the Corporation shall calculate (i) the Net Delivery Obligation with respect to an Acceptable Security by aggregating and netting the Net Securities Transfer Requirement, the Net Securities Reversal Requirement, and any Rolling Delivery Obligation, as applicable, owing to or by the Fixed Income Clearing Member with respect to such Acceptable Security on such Business Day (which Net Delivery Obligation shall be subject to further netting pursuant to Paragraph A-801(2)(**ed**) and the other provisions of Rule A-8 to determine the Net Delivery Requirement); and (ii) the Net Payment Obligation by aggregating and netting the Net Funds Transfer Requirement, the Net Funds Reversal Requirement, any Coupon Income payable pursuant to Paragraph D-606(9)(a), and any Postponed Payment Obligation, as applicable, owing to or by the Fixed Income Clearing Member, provided, however, these amounts shall not be netted against any other payment owing to or by a Fixed Income Clearing Member other than as prescribed under Paragraph A-801(2)(**bc**) and the other provisions of Rule A-8 to determine the Net Payment Against Delivery Requirement.

(4) At the applicable Netting Cut Off Time on each Business Day, the Net Delivery Obligations and the Net Payment Obligations will be netted against all other payment and delivery obligations with

respect to Acceptable Securities to determine the Net Delivery Requirements and the Net Payment Against Delivery Requirements pursuant to Paragraphs (bc) and (ed) of Subsection A-801(2), and communicated by the Corporation to Fixed Income Clearing Members that are Net Sellers with respect to a given Acceptable Security and/or Net Buyers. Fixed Income Clearing Members are responsible for ensuring that there are sufficient funds and sufficient Acceptable Securities in their cash and securities accounts at CDS to satisfy their Net Delivery Requirement and/or Net Payment Against Delivery Requirement, as applicable, as they become due in accordance with the rules of the Central Securities Depository and subject to Subsection D-606(11).

(5) At the end of each Business Day, the Corporation shall calculate the Net MTM Repo Rate Payment for each Fixed Income Clearing Member, which shall be due and payable at Settlement Time, by aggregating all MTM Repo Rate Payments due by each Fixed Income Clearing Member to the Corporation and netting them against all MTM Repo Rate Payments due by the Corporation to such Fixed Income Clearing Member across all its Repurchase Transactions provided that a MTM Repo Rate Payment shall not be calculated in respect of a Repurchase Transaction where such Business Day is the Repurchase Date of such Repurchase Transaction.

(6) At the end of each Business Day, ~~an amount in respect of~~ the Net MTM Reversal Requirement will be ~~calculated, which shall be~~ due and payable at Settlement Time to a Fixed Income Clearing Member by the Corporation if the ~~amount in clause (i) of the definition of “previous Business Day’s Net MTM Reversal Requirement” is greater than the amount in clause (ii) of such definition~~ Repo Rate Payment was paid by the Fixed Income Clearing Member to the Corporation, and will be paid by such Fixed Income Clearing Member to the Corporation if the ~~amount in clause (ii) of such definition is greater than previous Business Day’s Net MTM Repo Rate Payment was paid to~~ the amount in clause (i) of such definition Fixed Income Clearing Member by the Corporation; provided that this Subsection D-606(6) shall not apply if such Fixed Income Clearing Member is a Non-Conforming Member.

(7) (a) The payment of MTM Repo Rate Payments on a daily basis potentially distorts the pricing mechanisms for a Repurchase Transaction and in order to minimize the impact of such MTM Repo Rate Payments, the Corporation will, for each Fixed Income Clearing Member that is a party to a Repurchase Transaction, either charge interest on such MTM Repo Rate Payments received or pay interest on such MTM Repo Rate Payments paid, as determined pursuant to Paragraph D-606(7)(b).

(b) At the end of each Business Day, an amount in respect of the Net OCF MTM Payment will be calculated, which shall be due and payable at Settlement Time (i) to a Fixed Income Clearing Member by the Corporation if it is determined on such day that a Net MTM Reversal Requirement is payable to such Fixed Income Clearing Member by the Corporation, or (ii) by a Fixed Income Clearing Member to the Corporation if it is determined on such day that a Net MTM Reversal Requirement is payable by such Fixed Income Clearing Member to the Corporation. The amount of such Net OCF MTM Payment shall be determined by aggregating all OCF MTM Payments due by each Fixed Income Clearing Member to the Corporation in respect of its Repurchase Transactions and netting them against all OCF MTM Payments due by the Corporation to such Fixed Income Clearing Member in respect of its Repurchase Transactions.

(8) Notwithstanding anything to the contrary herein, all payments to be made hereunder to a Fixed Income Clearing Member or to the Corporation in respect of a Net MTM Repo Rate Payment, a Net OCF

MTM Payment, and a Net MTM Reversal Requirement which are due and payable at the same Settlement Time, shall be aggregated and netted against each other such that only one net payment shall be made either to a Fixed Income Clearing Member by the Corporation or to the Corporation by a Fixed Income Clearing Member in respect of such amounts, as may be further netted in accordance with, and otherwise subject to, Paragraph A-801(2)(a) and the other provisions of Rule A-8.

(9) (a) In respect of any Repurchase Transaction where the parties have agreed ~~on the Trade Date, as one of its Economic Terms,~~ that Coupon Income will be paid to a Seller as it is received, in each case known as a US style Repurchase Transaction, any Coupon Income paid by an issuer of Purchased Securities that has been transferred by a Net Seller to the Corporation and by the Corporation to a Net Buyer shall be paid on the Coupon Payment Date by the Net Buyer to the Corporation and by the Corporation to the Net Seller.

(b) In respect of any Repurchase Transaction where the parties have agreed ~~on the Trade Date, as one of its Economic Terms,~~ that Coupon Income will not be paid to a Seller as it is received, known as a Canadian style Repurchase Transaction, any Coupon Income paid by an issuer of Purchased Securities that has been transferred by a Net Seller to the Corporation, and by the Corporation to a Net Buyer, shall be held by the Net Buyer until the applicable Repurchase Date. On such Repurchase Date, the Repurchase Price otherwise payable by a Net Seller to the Corporation and by the Corporation to a Net Buyer in respect of such Repurchase Transaction shall be reduced by the Accrued Coupon Income.

(10) In respect of any Same Day Transaction, payment of the Purchase Price by the Buyer and delivery of the Quantity of Purchased Securities by the Seller will be settled on a gross basis ~~on the applicable Trade Date~~ immediately following the novation of each Same Day Transaction under Subsection D-605(3). Fixed Income Clearing Members who submit Same Day Transactions are responsible for ensuring that there are sufficient funds and sufficient Acceptable Securities in their cash and securities accounts at CDS to satisfy their Gross Delivery Requirement and/or Gross Payment Against Delivery Requirement, as applicable, as they become due in accordance with the rules of the Central Securities Depository. ~~Notwithstanding the foregoing, in respect of Gross Delivery Requirement(s) and/or Gross Payment Against Delivery Requirement(s) that have not been settled at the Intra-Day Gross Settlement Cut Off Time, the Corporation shall send new settlement instructions to the Central Securities Depository reducing any Gross Delivery Requirement of a Fixed Income Clearing Member in favour of the Corporation pursuant to a Same Day Transaction by any Gross Delivery Requirement of the Corporation in favour of the same Fixed Income Clearing Member in respect of the same Acceptable Security pursuant to another Same Day Transaction, and/or reducing any Gross Payment Against Delivery Requirement of a Fixed Income Clearing Member in favour of CDCC pursuant to a Same Day Transaction by any Gross Payment Against Delivery Requirement of CDCC in favour of the same Fixed Income Clearing Member pursuant to another Same Day Transaction. and subject to Subsection D-606(11).~~

(11) (a) Notwithstanding the foregoing, at the Morning Netting Cycle Timeframe, the Corporation shall net any Pending Payment Against Delivery Requirements of a Fixed Income Clearing Member in favour of the Corporation against any Pending Payment Against Delivery Requirements of the Corporation in favour of the same Fixed Income Clearing Member to determine the Morning Net Payment Against Delivery Requirement payable to or from such Fixed Income Clearing Member in accordance with Subsection A-801(3).

(b) Notwithstanding the foregoing, at the Afternoon Netting Cycle Timeframe, the Corporation shall net any Pending Delivery Requirements of a Fixed Income Clearing Member in favour of the Corporation against any Pending Delivery Requirements of the Corporation in favour of the same Fixed Income Clearing Member in respect of the same Acceptable Security to determine the Afternoon Net DVP Settlement Requirement deliverable to or from such Fixed Income Clearing Member in accordance with Subsection A-801(4)(i), and/or net any Pending Payment Against Delivery Requirements of a Fixed Income Clearing Member in favour of the Corporation against any Pending Payment Against Delivery Requirements of the Corporation in favour of the same Fixed Income Clearing Member to determine the Afternoon Net DVP Settlement Requirement payable to or from such Fixed Income Clearing Member in accordance with Subsection A-801(4)(ii).

(c) Each Fixed Income Clearing Member is responsible for ensuring that there are sufficient funds in its cash account at the Central Securities Depository to settle the lesser of (i) its Morning Net Payment Against Delivery Requirement, and (ii) the amount of the CDCC Daylight Credit Facility during the Morning Net DVP Settlement Timeframe, and that there are sufficient funds and sufficient Acceptable Securities in its cash and securities accounts at the Central Securities Depository to settle its Afternoon Net DVP Settlement Requirements and any Gross Delivery Requirements and Gross Payment Against Delivery Requirements resulting from Same Day Transactions submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, by the End of Day DVP Settlement Time, and otherwise comply with the rules of the Central Securities Depository.

Section D-607 Margin Requirements

- (1) In respect of all Repurchase Transactions to which a Fixed Income Clearing Member is a party, on each day that is a Business Day, the Corporation shall determine whether, due to changes in the Market Value of the Purchased Securities, additional Margin is required to be delivered by such Fixed Income Clearing Member by the Settlement Time on such Business Day.
- (2) In respect of all Repurchase Transactions to which a Fixed Income Clearing Member is a party, on each day that is a Business Day, the Corporation shall determine whether, due to changes in the Floating Price Rate and taking into account rate volatility and expected liquidation periods as determined in the Corporation's sole discretion, additional Margin is required to be delivered by such Fixed Income Clearing Member by the Settlement Time on such Business Day.
- (3) In respect of all Cash Buy or Sell Trades to which a Fixed Income Clearing Member is a party, on each Business Day commencing on the applicable ~~Trade~~Novation Date and ending on (but excluding) the applicable Purchase Date, the Corporation shall determine whether, due to changes in the Market Value of the applicable Acceptable Security, additional Margin is required to be delivered by such Fixed Income Clearing Member by the Settlement Time on such Business Day.
- (4) The delivery of Margin under this Section D-607 shall be subject to the netting provisions of Paragraph A-801(2)(~~eb~~) and to Rule A-7 and the other provisions of Rule A-8.

Section D-608 Substitution

~~(1) In respect of a Repurchase Transaction that is an N-Day Term Repurchase Transaction, where the parties have agreed on the Trade Date that the Repo Party shall have the right, upon providing notice to~~

~~the Corporation, to substitute Purchased Securities for another Acceptable Security, such Repurchase Transaction may be varied in accordance with the provisions of the Operations Manual by the transfer by the Reverse Repo Party to the Repo Party of Equivalent Securities in exchange for the transfer by the Repo Party to the Reverse Repo Party of New Purchased Securities, being securities having a Market Value at the date of the variation at least equal to the Purchase Price. Such Repurchase Transaction varied under this Section shall thereafter continue in effect as though the Purchased Securities in respect of such Repurchase Transaction consisted of the New Purchased Securities instead of the securities in respect of which Equivalent Securities were transferred to the Repo Party.~~



PART E - FOREIGN CLEARING HOUSES

RULE E-1 FOREIGN CLEARING HOUSES

The provisions of this Part E shall apply only to transactions which are trades in Options issued by clearing houses, other than the Corporation, where the Corporation becomes a member of such clearing house and conducts business in its own name for the account of one or more Clearing Members.

Section E-101 Definitions

Notwithstanding Section A-102, for the purposes of Part E the following term is defined:

“Foreign Clearing House” – a corporation through which options are cleared, a member of which is the Corporation.

Section E-102 Notice of Membership

Within 30 days of becoming a member of a Foreign Clearing House, the Corporation shall provide notice thereof to all Clearing Members.

Section E-103 Clearing Transactions Through Foreign Clearing Houses

Every Clearing Member which wishes to trade options through a Foreign Clearing House may so request by filing with the Corporation a notice in a form prescribed by the Corporation and, subject to the Rules, the Corporation shall consent to such request.

Section E-104 Responsibility of Members

Every Clearing Member on behalf of which the Corporation acts as a clearing member of a Foreign Clearing House shall comply with the by-laws, rules, regulations or policies established by the Corporation from time to time in order to ensure that the Corporation complies with the by-laws, rules, regulations and policies of each such Foreign Clearing House. Each Clearing Member by the delivery of the notice referred to in Section E-103 agrees to indemnify and save harmless the Corporation from and against any and all losses, liabilities, costs, claims, expenses or demands (or actions in respect thereof) including, without limitation, legal fees, arising in any manner from or in connection with or as a result of the failure by such Clearing Member to comply with such by-laws, rules, regulations or policies established by the Corporation from time to time; and failure to comply with such by-laws, rules, regulations or policies shall also subject such Clearing Member to disciplinary action pursuant to the Rules.



**CANADIAN DERIVATIVES CLEARING CORPORATION
CORPORATION CANADIENNE DE COMPENSATION DE PRODUITS DÉRIVÉS**

OPERATIONS MANUAL

VERSION OF FEBRUARY 10, 2012

AS OF JULY 4, 2011 TABLE OF CONTENTS

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PREAMBLE AND DEFINITIONS

PREAMBLE

This Amended and Restated Operations Manual cancels and supersedes the previous versions thereof.

CDCC and its Clearing Members are contractually bound by the Membership Agreement which is constituted by the Application for Membership when accepted by CDCC, as may be amended from time to time, which incorporates by reference the Rules of CDCC, as may be amended from time to time. The Rules of CDCC include this Operations Manual, as may be amended from time to time. In the case of conflict, the provisions of the Rules (excluding the Operations Manual) prevail over this Operations Manual. The provisions of the Rules (including this Operations Manual), in the case of conflict, prevail over the provisions of the Application for Membership.

The Operations Manual provides practical details with respect to (i) certain definitions, (ii) timelines, (iii) reports, (iv) trade processing, (v) open positions, (vi) exercises, tenders, assignments and delivery, (vii) settlement, (viii) additional margin processing, and (ix) clearing fees. The Operations Manual contains two schedules which are integral parts thereof: (a) the Risk Manual providing practical details with respect to margin and other risk management processes, including the Default Manual as an Appendix, and (b) the templates of depository agreements.

All times specified in this Operations Manual refer to Eastern Time, unless otherwise indicated.

All amounts specified in this Operations Manual refer to Canadian currency, unless otherwise indicated.

All capitalized terms used in this Operations Manual shall have the meanings assigned to them in the Rules unless the context otherwise requires or unless specifically defined differently herein.

DEFINITIONS

“Acceptable Collateral” – Margin Deposits by Clearing Members in a form that is acceptable to CDCC as set forth in Section A-709 of the Rules.

“Assignee” – a Clearing Member that holds a Short Position in an Options contract or a Long Position in a Futures contract and which is assigned by CDCC the obligation to make delivery of the Underlying Interest, resulting from the submission of an Exercise Notice or a Tender Notice by another Clearing Member (referred to as Exerciser or Tenderer) holding a Long Position in the relevant Series of Options or a Short Position in the relevant Series of Futures.

“Automatic Exercise” – a process by which the CDCC Clearing Application will exercise In-the-Money Options at a pre-determined threshold.

“CDCC Clearing Application” – ~~CDCC’s system including currently SOLA Clearing~~ and all the processes associated with it, as may be supplemented or otherwise changed from time to time.

“Closing Transaction” – any Transaction that is either a Closing Buy Transaction, a Closing Purchase Transaction, a Closing Sell Transaction or a Closing Writing Transaction, as such terms are defined in the Rules, and in all cases that reduces or eliminates the Clearing Member’s Open Interest.

“Converge” – marketing brand of the portion of the CDCC Clearing Application that captures and processes OTCI Transactions, including Fixed Income Transactions.

PREAMBLE AND DEFINITIONS

“Difference Fund” – any and all deposits from a Clearing Member to CDCC as additional Margin, in accordance with Sections A-702, A-705, A-710, B-412, C-303, C-517 or D-307 of the Rules, or otherwise as set forth in Section 8-2 hereof.

“Exerciser” – a Clearing Member that holds a Long Position in a particular Series of Options and submits an Exercise Notice to CDCC.

“Expiry Saturday” – the Saturday following the third Friday of the month.

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

“Forward Repurchase Transaction” – a Repurchase Transaction with respect of which the Open Leg has not settled yet at the time of the relevant report.

“FTP Downloads” – Clearing Members’ access to files and reports on an FTP server that is part of the CDCC Clearing Application.

“Inquiry Screen” – Graphical User Interface (GUI) view of the CDCC Clearing Application.

“Large Value Transfer System” or “LVTS” – an electronic wire system introduced by the Canadian Payments Association in February 1999 to facilitate the transfer of irrevocable payments in Canadian dollars across the country.

“Fixed Income Mark-to-Market Amounts” – any and all Net MTM Repo Rate Payments, Net OCF MTM Payments and Net MTM Reversal Requirements, as such terms are defined in Section D-601 of the Rules.

“Mini Futures Contract” – a Future that has the same Underlying Interest as a Standard Futures Contract but having a Unit of Trading that is a ratio of the Standard Futures Contract in accordance with applicable Contract Specifications.

“Net Settlement Position” – All the future Net Delivery Requirements and Net Payment Against Delivery Requirements of a Clearing Member, as reported by CDCC on a daily basis, taking into account all Fixed Income Transactions that have settled during the day and all new Fixed Income Transactions that have been novated to CDCC.

“Open Position File” – database of the CDCC Clearing Application which compiles the Open Positions of all Clearing Members. Each Clearing Member can access the information pertaining to his accounts only, not to other Clearing Members’ accounts.

“Opening Transaction” – any Transaction that is either an Opening Buy Transaction, an Opening Purchase Transaction, an Opening Sell Transaction or an Opening Writing Transaction, and in all cases that create or increase the Clearing Member’s Open Interest.

“Operational Notices” – formal notifications to the Clearing Members, representing items that are not published on CDCC’s website. These documents are available on the Secured Website.

PREAMBLE AND DEFINITIONS

“OTCI Equity Options” – over the counter options on an equity, bearing characteristics that differ from Exchange traded Options and are cleared by CDCC through *Converge*.

“Position Transfer” – this is the CDCC Clearing Application function to move a position from one Clearing Member to another.

“Production Schedule” – sum of time lines that are followed by CDCC, as set forth in Section 2 of this Operations Manual.

“Request for Standard vs Mini Offset” – the request by a Clearing Member, in such form as prescribed by CDCC, to offset one (1) or more Long Position(s) on a Standard Futures Contract against the equivalent number of Short Positions on the corresponding Mini Futures Contract (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Futures Contract), having the same Delivery Month and booked in the same Clearing Member’s account, or the other way around.

“Running Repurchase Transaction” – a Repurchase Transaction with respect of which the Open Leg has already settled at the time of the relevant report.

“Secured Website” – Clearing Members only secured web site that requires a sign on and password, where CDCC publishes Operational Notices as well as documents that are meant only for the Clearing Members.

“Specific Deposit” – a Put Margin Deposits (in the forms of Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposits, put and call letters of guaranty, bulk and specific collateral) which are accepted by CDCC as Underlying Interest Equivalent to cover a specific Short Position client position.

“Standard Futures Contract” – a Future in relation to which a Mini Futures Contract exists.

“Tenderer” – a Clearing Member that holds a Short Position in a particular Series of Futures and submits a Tender Notice, or is deemed to do so in accordance with the Rules, to CDCC.

“Unsettled Items” – any delivery of the Any Underlying Interest of an Option that has not been settled at the Central Securities Depository by its Settlement Time.

TIME FRAMES

ON-LINE ACCESS

Clearing Members must be connected to the CDCC Clearing Application using their PC terminals to perform a variety of functions. (Clearing Members must supply their own PC terminals and Internet connection, at their own cost).

All instructions (corrections, Open Position changes, Position Transfers, Deposits, withdrawals, and submission of Exercise Notices and Tender Notices) must be entered on-line.

The CDCC Clearing Application allows Clearing Members to view their current information throughout the day electronically (except during scheduled maintenance or unforeseen outages). In addition, Clearing Members can download their reports ~~after 7~~~~from 6:00 a.m. to 3:00~~ p.m. every day using the FTP Download function.

Should a Clearing Member not have electronic access (due to technical issues) to the CDCC Clearing Application, CDCC can perform instructions on behalf of the Clearing Member. This requires a phone call from the Clearing Member to CDCC, along with the appropriate form faxed or scanned and e-mailed to CDCC. Such form must be authorized with the approved Clearing Member's stamp.

The regular business hours of CDCC are 7:00 a.m. to 5:30 p.m. on every Business Day.

With respect to operational activity related to Options with an Expiration Date on Saturday, CDCC staff members are on-site from 8:00 a.m. to forty-five (45) minutes after delivery of the Options Exercised and Assigned Report (MT02).

TIME FRAMES

TIME FRAMES FOR ON-LINE ACCESS

ON EVERY BUSINESS DAY

Activity	Deadlines
Settlement Time with respect to payments Payments for overnight settlement 7:45 a.m.	_____
Fixed Income Transactions – Morning Netting Cycle Timeframe in respect of any Pending Payment Against Delivery Requirements (Morning Net Payment Against Delivery Requirements sent to CDS for settlement during the Morning Net DVP Settlement Timeframe)	10:00 to 10:15 a.m.
Morning Net DVP Settlement Timeframe	10:15 to 10:30 a.m.
Intra-day margin call	10:30 a.m.
Specific Deposits (same day withdrawal)	1:30 p.m.
Fixed Income Transactions – Afternoon Netting Cycle Timeframe Fixed Income Transactions – (Same Day Transactions) – Intra Day Gross Settlement Cut Off Time in respect of any Pending Settlement Requirements (Afternoon Net Unsettled Items DVP Settlement Requirements sent to CDS for (Netted settlement by End instructions of Unsettled Items sent to CDS for same day settlement) – 1:30 p.m.	2:00 to 2:15 p.m.
Intra day margin call process – Specific Deposits (same day valuation)	1:30 p.m.
Cash Deposits (Margin Deposits and Clearing Fund) – under \$2,000,000 (same day deposit)	2:45 p.m.
Cash Deposits (Margin Deposits and Clearing Fund) – of and over \$2,000,000 (2 Business Days notice)	2:45 p.m.
Cash withdrawal requests – under \$2,000,000 (same day withdrawal)	2:45 p.m.
Cash withdrawal requests (Margin Deposits) – under \$2,000,000 (same day withdrawal)	2:45 p.m.
Cash withdrawal requests (Margin Deposits) – of and over \$2,000,000 (2 Business Days notice)	_____ 2:45 p.m.
Fixed Income Transactions – (Same Day Transactions) – Submission Cut-Off Time	_____ 3:30 p.m.
All assets deposits (other than cash (Margin Deposits))	3:30 p.m.
All assets withdrawal requests (other than cash (Margin Deposits) for same day withdrawal	3:30 p.m.
All assets substitution requests other than cash (Margin Deposits) for same day substitution	3:30 p.m.

TIME FRAMES

Failed and partial deliveries – CDCC intervention starts	3:00 p.m.
Failed and partial deliveries – CDCC intervention ends	3:55 p.m.
Specific Deposits (overnight valuation)	3:30 p.m.
End of Day DVP Settlement Time	4:00 p.m.
OTCI (other than Fixed Income Transactions) – Unmatched entry	4:00 p.m.
Position Transfers	5:25 p.m.
Same Day and T+1 Trade corrections	5:30 p.m.
Open Position changes	5:30 p.m.
Fixed Income Transactions <u>and</u> Futures contracts on Acceptable Securities(Deferred Settlement Transactions) – Netting Cut Off Time (Netted settlement instructions (Net Delivery Requirements and Net Payment Against Delivery Requirements) sent to CDS for settlement on the next business day)	5:30 p.m.

TIME FRAMES

TIME FRAMES FOR ON-LINE ACCESS (continued)

ON EVERY BUSINESS DAY (continued)

Activity	Deadlines
Futures – Request for Standard vs Mini Offset	5:00 p.m.
Futures – Tender Notices submission	5:30 p.m.
Options – Exercise Notices submission	5:30 p.m.
CDCC Clearing Application shutdown – Close of Business	5:30 p.m.
Fixed Income Transactions – available (next Business Day start)	7:00 p.m.
Unsettled Item	
Confirmation of settled items to be sent to CDCC	4:15 p.m.
Daily Capital Margin Monitoring Calls	
CDCC notifies Clearing Members of additional Margin required	9:30 a.m.
Clearing Member’s obligation to cover any deficit	12:00 (noon)

TIME FRAMES FOR ON-LINE ACCESS (continued on next page)

TIME FRAMES

TIME FRAMES FOR ON-LINE ACCESS (continued)

EXPIRY SATURDAY

Activity	Deadlines
Reports available (FTP Download): <ul style="list-style-type: none"> ➤ Expiry Report (MX01) ➤ Expiry Options Daily Transaction Report (MT01) ➤ List of Options/Cash Adjustments (MT03) 	6:00 a.m.
CDCC Clearing Application available for: <ul style="list-style-type: none"> ➤ Trade corrections ➤ Open Position changes ➤ Position Transfers ➤ Changes to Automatic Exercises ➤ Exercise Notices input ➤ Cancel / correct previous (Friday) exercises 	6:00 a.m. to 10:00 a.m.
CDCC Clearing Application shutdown: <ul style="list-style-type: none"> ➤ CDCC processes expiry entries 	10:01 a.m.
Reports available (FTP Download): <ul style="list-style-type: none"> ➤ List of Expiry Adjustments Report (MX02) ➤ Expiry Difference Report (MX03) 	10:15 a.m. to 11:30 a.m.
CDCC Clearing Application available again for: <ul style="list-style-type: none"> ➤ Review of expiry entries ➤ Corrections to expiry entries 	10:15 a.m. to 10:30 a.m.
CDCC Clearing Application shutdown <ul style="list-style-type: none"> ➤ Close of Business 	10:30 a.m.
Reports available (FTP Download): <ul style="list-style-type: none"> ➤ Options Exercised and Assigned Report (MT02) ➤ Other reports and files also available 	11:45 a.m.

TIME FRAMES FOR ON-LINE ACCESS (continued on next page)

TIME FRAMES

TIME FRAMES FOR ON-LINE ACCESS (continued)

FIFO PERIOD

Activity	Deadlines
Daily reporting by Clearing Members of the Long Positions in each of their accounts in chronological order	5:30 p.m.
Submission of Tender Notices	5:30 p.m.

PLEDGING

Clearing Members must input requests for deposit or withdrawal of Acceptable Collateral on the pledging screen of the CDCC Clearing Application.

CDCC monitors the pledging screens between 9:00 a.m. and 3:30 p.m. on Business Days.

CDCC verifies the validity of each deposit made by Clearing Members and ensures that withdrawals do not create deficits in the Clearing Members' accounts (Margin, Clearing Fund or Difference Fund). Any request for the withdrawal of a Specific Deposit should be entered prior to when the intra-day margin call process runs as deposits are valued at this time. Any withdrawal of this type entered after such time will not be processed as such withdrawal cannot be properly valued.

The entries on the pledging screen of the CDCC Clearing Application are matched by CDCC to corresponding entries on the reporting system of the relevant Central Securities Depository.

In some cases an exchange of document at a CDCC Office by the Clearing Members (accompanied by a screen print of the entry bearing the Clearing Member's stamp) may be accepted by CDCC as constituting a physical deposit or withdrawal.

After performing all the validation processes, CDCC confirms within the CDCC Clearing Application the Clearing Members' deposits and/or withdrawals.

Deposits, withdrawals and changes thereto will be reflected on the immediately following Business Day Deposits and Withdrawals Report (MA01). In accordance with CDCC's Rules, any discrepancies that the Clearing Member notices against its own records should be reported to CDCC immediately.

CDCC - REPORTS**REPORT REFERENCES**

Clearing Member reports contain the following information:

Transactions	Reports relating to Clearing Member's Transactions such as trade entries, trade corrections, trade rejections and exercises/tenders. These reports start with the alpha code MT.
Fees	Report relating to the collection of service fees from the Clearing Member. These reports start with the alpha code MB.
Settlements	Reports relating to Premiums, Settlement of Gains and Losses, and Margin. These reports start with the alpha code MS.
Assets	Reports relating to the maintenance of Clearing Member assets as well as depository information. These reports start with the alpha code MA.
Delivery	Reports relating to delivery obligations and unsettled deliveries. These reports start with the alpha code MD.
Positions	Reports relating to positions held by Clearing Members separately for Futures, Options, OTCI and Fixed Income Transactions. These reports start with the alpha code MP.
Expiry	Reports used by Clearing Members to verify expiring positions and automatic exercises. These reports start with the alpha code MX.
Risk	Reports relating to risk management. These reports start with the alpha code MR.

CDCC - REPORTS
REPORT DETAILS

Report Code	Report Name	Report Description
<i>Daily:</i>		
MA01	Deposits and Withdrawals Report	Details on Clearing Member's deposits and withdrawals for Margin, Clearing Fund and Difference Fund. (Note: will find the letters D, W and PW next to the date of deposit)
MD01	Options Unsettled Delivery Report	Lists unsettled deliveries for Options.
MD51	Futures Unsettled Delivery Report	Lists unsettled deliveries for Futures - the issue and number of Futures contracts which must be delivered - the account to which the delivery has been assigned and the opposite Clearing Member - the Settlement Amount and settlement date
MD70	Fixed Income <u>Net Settlement Delivery</u> Status Report	Status of Clearing Member's <u>settlement</u> delivery versus payment activity <u>at the Central Securities Depository</u> with respect to Acceptable Securities on that day.
MP01	Options Open Positions Report	Lists the Clearing Member's Open Positions for puts and calls.
MP02	Sub-Account Options Open Positions Report	Lists all Options Open Positions in sub-accounts of the Clearing Member's Client Account(s), Firm Account(s) and Multi-Purpose Account(s).
MP21	Contract Adjustment Report	Lists the Clearing Member's Long Positions and Short Positions before and after the relevant contract adjustment.
MP51	Futures Open Positions Report	Lists the Clearing Member's Futures and Options on Futures Open Positions for all accounts.
MP70	Fixed Income Forward Repo Activity Position Report	Lists the Clearing Member's outstanding Repurchase Transactions <u>accepted for clearing by CDCC. Acceptable Security.</u>
<u>MP71</u>	<u>Fixed Income Repo Conversion Position Report</u>	<u>Lists all of the Clearing Member's Repurchase Transactions that have progressed from Forward Repurchase Transactions to Running Repurchase Transactions on that day.</u>
<u>MP73</u>	<u>Fixed Income Running Repo Open Positions Report</u>	<u>Lists all of the Clearing Member's Running Repurchase Transactions as of that day.</u>
<u>MP75</u>	<u>Fixed Income Forward Net Settlement Positions Report</u>	<u>Lists all of the Clearing Member's forward Net Settlement Positions obligations.</u>
<u>MP79</u>	<u>Daily Repo Rate Mark to Market Report</u>	<u>Lists the Clearing Member's MTM Repo Rate Payments, OCF MTM Payments and Net MTM Reversal Requirement for that day.</u>
MR05	OTCI (<i>Converge</i>) Position Limits Usage Report	Lists Clearing Member's percentage of OTCI (<i>Converge</i>) Position Limits used.
MR50	Daily Capital Margin Monitoring Report	Lists Clearing Member's Margin and capital requirements. Identifies if additional Margin is required.
MS01	Daily Settlement Summary Report	Lists assets balances with Margin requirements and cash settlement in Canadian and U.S. dollars.
MS03	Trading and Margin Summary Report	Lists Options Premiums, Settlement of Gains and Losses, Futures Premiums and Margin requirements for each sub-account. Note: Does not include trade adjustments (T+ 1)
MS05	SPAN Performance Bond Summary Report	The report shows the Performance Bond (Margin) requirements for each Clearing Member by type of account.
MS07	Intra-Day Margin Report	Margin call details with Margin requirements by account.
MS08	Daily Margin Activity Report	Lists details of positions by Class Group with Margin requirements.
MS70	Fixed Income Net Settlement	<u>Lists all of the Clearing Member's Fixed Income Transactions</u>

CDCC - REPORTS

	Position <u>Activity</u> Report	activities that contribute to its Net Settlement Position. Lists details of the net settlement position of the Clearing Member with respect to Acceptable Securities.
MS75	Fixed Income End of Day <u>Daily Settlement Instruction</u> Report	Detail of Clearing Member's <u>Indicates the</u> net settlement instructions to be of the Clearing Member, as sent to the Central Securities Depository <u>after Netting Cut-Off Time. (i.e. Net Delivery Requirements with respect to Acceptable Securities and/or Net Payment against Delivery Requirement).</u>
MT01	Options Daily Transaction Report	Lists details for all Option contracts from previous Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the Transactions).
MT03	List of Options/Cash Adjustments Report	Lists all trade adjustments and Open Position changes including cash adjustments and Position Transfers.
MT05	Options Consolidated Activity Report	Lists all positions with activity including Option Premiums.
MT06	Options Sub-Account Consolidated Activity Report	Lists positions with activity including Option Premiums for only the sub-accounts of Client, Firm and Multi-Purpose.
MT10	Unconfirmed Items Report	Lists all items that remained unconfirmed by the opposite member at the end of the current Business Day.
MT29	Trades Rejection Modification Report	Lists all original and modified trade rejections for the Clearing Member.
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MT52	Futures Tenders and Assignments Report	Lists all Tender Notices and Assigned Positions details.
MT53	List of Futures/Cash Adjustments Report	Lists details on all Futures and Options on Futures trade adjustments, Open Position changes, including cash adjustments and Position Transfers.
MT54	Futures Trading Summary Report	Lists all Series of Futures and Options on Futures and prices, and volumes at which each were traded. Lists number of contracts bought and sold for each Series of Futures Trade Prices.
MT66	Futures Sub-Account Consolidated Activity Report	Lists Futures and Options on Futures positions with activity including Settlement of Gain and Losses and Futures Premiums respectively, for the sub-accounts of Client, Firm and Multi-Purpose.
MT70	Fixed Income Novated Daily Transactions Report	<u>Lists the</u> Detail of Clearing Member's daily Fixed Income Transactions <u>novated to CDCC in accordance with the CDCC Clearing Application.</u>
MT71 <u>MT75</u>	Fixed Income <u>CSD Novated Trades Daily Trade Adjustments</u> Report	<u>Lists the data transmitted to CDCC by the Central Securities Depository with respect to the Clearing Member's daily Fixed Income Transactions submitted for clearing. Lists the daily adjustments (including corrections, cancellations, rejected trades) made by the Clearing Member with respect to Fixed Income Transactions.</u>
<u>MT73</u>	<u>Fixed Income Trade Rejection Report</u>	<u>Lists details of Clearing Member's daily Fixed Income Transactions that were rejected (DK) by CDCC or by the Clearing Member itself.</u>
<u>MT74</u>	<u>Fixed Income Not-Novated Transactions Report</u>	<u>Lists the Clearing Member's daily Fixed Income Transactions that were not novated to CDCC, including all rejected and orphaned trades.</u>
MT92	Options on Futures Exercised & Assigned Report	Lists totals for Options on Futures Exercised Positions and Assigned Positions by Series. Note: Futures Options Exercised Positions and Assigned Positions value is nil

CDCC - REPORTS

MT99	Detailed Futures Consolidated Activity Report	Detailed list of all Futures position with activity, including Settlement of Gains and Losses. Detailed list of all Options on Futures positions and activity including Futures Premiums.
Monthly:		
MA71	Clearing Fund Statement	Identifies the Clearing Member's Clearing Fund obligation. Lists the Clearing Member's current Deposits within the Clearing Fund and what is owed.
MB01	Monthly Clearing Fees <u>Invoice Details Report</u>	This report contains <u>summarization of the monthly clearing fees in an invoice format – THIS IS NOT TO BE PAID. The system automatically includes the collection of the fees within the daily settlement on the morning of the fifth business day of the month.</u> the following four sub-reports: “Fees” – this is product by sub-account. “Summary by Category” – this is summarization by product. “Summary by Account Operation Type” – this is a summary of the operational charges by sub-account.
MB02	Monthly Clearing Fees <u>Details Report</u> Invoice	This report contains <u>the following four sub-reports:</u> “Fees” summarization of the monthly clearing fees in an invoice format – this is product by sub-account. “Summary by Category” – this is summarization by product. “Summary by Account Operation Type” – this is a summary of the operational charges by sub-account. NOT TO BE PAID. The system automatically includes the collection of the fees within the daily settlement on the morning of the fifth business day of the month.
MB03	Monthly Fixed Income Clearing Fees Invoice	This report details the clearing fees that are due with respect to Fixed Income Transactions by each Clearing Member.
MT40	Broker Ranking by Account Report	Individual Clearing Member ranking within CDCC for contracts, value traded and transactions (trade only) by month with year to date.
FIFO Period:		
MP56	FIFO Position Report	Lists Series of Futures with positions in chronological order, contracts in positions.
MP60	FIFO Declaration vs. Open Position Report	Lists Clearing Member's Futures positions and FIFO long positions declaration.
Options on Futures Expiry:		
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MX11	Futures Options Expiry Report	Lists all expiring Options on Futures with In-the-Money Options or Out-Of-the-Money Options amounts and Automatic Exercise positions for Expiry.
MX12	Futures Options Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series only.
MX13	Futures Options Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Futures Options Expiry Report (MX11).
Options Expiry (Saturday Morning):		
MT01	Options Daily Transaction Report	Lists details for all Option contracts from previous Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the transactions).
MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out-of-the-Money Options amounts and Automatic Exercise positions for Expiry.

CDCC - REPORTS

MX02	List of Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series of Options only.
MX03	Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Expiry Report.
<i>OTCI Expiry:</i>		
MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out-of-the-Money Options amounts and Automatic Exercise positions for Expiry.
<i>Business Day following Expiry:</i>		
MP11	Expired Options Positions Report	Lists the Clearing Member's balance of expired Options positions following the Saturday Expiry process.
MP12	Expired Futures Options Positions Report	Lists the Clearing Member's balance of expired Futures Options positions following the Friday Expiry process.

TRADE PROCESSING

INTRODUCTION

All Exchange Transactions are processed electronically. In all cases both the selling and buying trade data is sent to the relevant Exchange's electronic trading system, which then transmits the matched trades to CDCC. The CDCC Clearing Application verifies the trade information and, if incorrect, rejects it for correction and resubmission. If the trade information is valid, the Clearing Members' Open Positions are immediately updated. The Exchange Transaction is reported on the Options Daily Transaction Report (MT01) or on the Final Futures Daily Transaction Report (MT51), as the case may be.

OTCI Transactions (other than Fixed Income Transactions) are also submitted electronically. Clearing Members submit their individual trade details onto the trade capture screens of *Converge*, which will match, validate and confirm the transactional details to the submitting Clearing Members. OTCI Options are reported on the Options Daily Transaction Report (MT01). No corrections will be permitted for OTCI Transactions after CDCC issues a Trade Confirmation.

Fixed Income Transactions can be transmitted through Acceptable Marketplaces to CDCC through a number of methods. The Clearing Members must use one of the following methods:

1. use the trade capture screens of *Converge*
2. transmit trade legs through other electronic means for matching within *Converge*
3. transmit matched trades through other electronic means acceptable to CDCC
4. trade at an ATS which will transmit matched trades through acceptable electronic means to CDCC
5. ~~trade at an IDB which will use the trade capture screens of *Converge*~~
5. trade at an IDB which will transmit matched trades through acceptable electronic means to CDCC
6. use the CDS trade matching facility routing matched trades to CDCC

Fixed Income Transactions are reported on the Fixed Income ~~CSD Information~~Daily Transactions Report (~~MT71~~MT70).

The reports referred to herein are available for FTP Downloads on the morning of the Business Day after Transactions are submitted for clearing to CDCC. In accordance with CDCC's Rules, Clearing Members must verify that such reports are correct.

TRADE PROCESSING

EXCHANGE TRANSACTIONS (OPTIONS AND FUTURES)

Positions of each Clearing Member are carried by CDCC for Client Account(s), Firm Account(s) and Multi-Purpose Account(s), each of which is maintained separately. CDCC supplies reports for each account.

Such separation requires that each Clearing Member designates whether a Transaction is submitted for a “Client”, “Firm” or “Multi-Purpose” when submitting a Transaction for clearing. Furthermore, if separate sub-accounts are maintained for each account type, each Transaction must be coded to indicate the appropriate sub-account information.

It is required that a Closing Transaction for a Client Account be designated as such on the trade input. Such designation is not required for a Netted Client Account, a Multi-Purpose Account or a Firm Account, as CDCC carries net position records in the Open Position File for each of these accounts.

All Transactions for a Client Account which are not specifically designated as Closing Transactions shall be processed by CDCC as Opening Transactions. Opening Purchase Transactions increase the Long Position and Opening Writing Transactions increase the Short Position, in the particular Series of Options involved, as reported in the Clearing Member's Client Account. Opening Buy Transactions increase the Long Position and Opening Sell Transactions increase the Short Position, in the particular Series of Futures involved, as reported in the Clearing Member's Client Account.

Conversely, all Transactions designated as Closing Transactions decrease the Short Position and Long Position, respectively, for the particular Series of Options or Series of Futures in the reporting Clearing Member's Client Account. The CDCC Clearing Application verifies that all the Closing Transactions are valid and if the volume of a Closing Transaction exceeds the Open Position, the CDCC Clearing Application will reject it and replace it by a Closing Transaction not exceeding the Open Position and by an Opening Transaction for the remaining Open Position that could not be closed.

The designation of a Transaction as “opening” or “closing” can be modified by the Close of Business.

CDCC maintains both the Long Position and the Short Position for each Series of Options and Series of Futures for Client Accounts but only maintains a net Long Position or net Short Position for each Series of Options and Series of Futures for Netted Client Accounts, Multi-Purpose Accounts and Firm Accounts.

TRADE PROCESSING

FIXED INCOME TRANSACTIONS

Positions of each Clearing Member are carried by CDCC for Client Account(s), Firm Account(s) and Multi-Purpose Account(s), each of which is maintained separately. CDCC supplies reports for each account.

Such separation requires that each Clearing Member designates whether a Transaction is submitted for a “Client”, “Firm” or “Multi-Purpose” when submitting a Transaction for Clearing. Furthermore, if separate sub-accounts are maintained for each account type, each Transaction must be coded to indicate the appropriate sub-account information.

All Repurchase Transactions and Cash Buy or Sell Trades must be submitted for clearing to CDCC through an Acceptable Marketplace or through the CDS trade matching facility routing matched trades to CDCC.

Once a Repurchase Transaction or Cash Buy or Sell Trade is received by CDCC, a variety of validations will occur. These validations ensure that all transactional details match and CDCC does not accept any Repurchase Transaction or Cash Buy or Sell Trade bearing attributes that are not acceptable for clearing.

Upon issuance of a Trade Confirmation by CDCC, the Repurchase Transaction or Cash Buy or Sell Trade is novated to CDCC, such that the original Repo or Cash Buy or Sell Trade between the two Fixed Income Clearing Members is cancelled and replaced by two equivalent Fixed Income Transactions, one between the Seller and CDCC and one between the Buyer and CDCC.

OPEN POSITIONS

INTRODUCTION

Having accepted a Transaction, the next step in the CDCC Clearing Application is the determination of the Open Position. Each Clearing Member can view all the information related to their accounts on the Open Position File which records the open Long Position and Short Position for each Series of Options and Series of Futures, OTCI and Fixed Income Transactions for each account type, updating the information as each Transaction is accepted.

Each Clearing Member is responsible for reconciling the information recorded on the Open Position File and all relevant reports issued by CDCC against their internal records. Careful attention must be paid to account designation and whether the Transaction is coded as “opening” or “closing” in the relevant file or report. Reports are available for FTP Download as per Section 2 of this Operations Manual.

Open Interest is updated automatically as each Transaction, Exercise Notice and Tender Notice is processed.

ADJUSTMENTS OF OPEN POSITIONS

GENERAL

Occasionally the need will arise to adjust an already processed Transaction. In such cases, the adjustment will affect the Clearing Member's Open Position accordingly. For example, an adjustment designed to change the original Opening Buy Transaction (or Opening Purchase Transaction) to a Closing Buy Transaction (or Closing Purchase Transaction) will result in a decrease in the Long Position and in the Short Position in the Series of Futures (or Series of Options) involved equal to the volume of the original Transaction. Any Settlement of Gains and Losses (or Premium) adjustments will be shown as adjustments on the relevant report.

Generally this situation will occur when:

1. The transactional details were incorrectly recorded, e.g. Clearing Member number, price, series and volume.
2. Information pertaining to only one side of the Transaction such as the opening/closing or account designation was erroneously reported on the original trade.
3. The source document of the relevant Exchange was input incorrectly.
4. Transfer of Open Positions from one account to another account of a Clearing Member.
5. Transfer of Open Positions from an account of one Clearing Member to an account of another Clearing Member.

Types of Adjustments

The following adjustments are acceptable for Exchange Transactions and OTCI (other than Fixed Income Transactions):

1. Same Day Trade Corrections Adjustment (T). Same day trade corrections are only permitted on account type, sub-account designation and opening/closing and no corrections are permitted on OTCI Transactions after a Trade Confirmation has been issued by CDCC.
2. Trade Date + 1 Corrections Adjustment (T+1). Modifications of any type are subject to approval by the relevant Exchange and no corrections permitted on OTCI Transactions.

OPEN POSITIONS

3. Open Position Changes. For OTCI Transactions, these will be performed through the Position Transfer function of the CDCC Clearing Application. Note: there is a Position Transfer fee per contract.
4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another or between accounts of a same Clearing Member on a post trade basis. Note: there is a Position Transfer fee per contract.
5. Standard vs Mini Offset. Upon the receipt of a Request for Standard vs Mini Offset in the prescribed form, CDCC will offset (i) one or more existing Standard Futures Contract Long Position(s) against the equivalent number of existing Mini Futures Contract Short Positions (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Futures Contract) having the same Delivery Month and booked in the same Clearing Member's account, or (ii) a number of existing Mini Futures Long Positions against one or more Standard Futures Short Position(s) (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Futures Contract) having the same Delivery Month and booked in the same Clearing Member's account, based on the instructions provided in the Request for Standard s Mini Offset. Such Long Positions and Short Positions shall be offset at the previous day's Settlement Price, with the effect of reducing the Open Positions that the Clearing Member has on the relevant Series of Futures in the relevant account.

The following adjustments are acceptable for Fixed Income Transactions:

1. Open Position Changes. These will be performed through the Position Transfer function of the CDCC Clearing Application. Note: there is a Position Transfer fee per contract.
- ~~1. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another or between accounts of a same Clearing Member on a post trade basis. Note: there is a Position Transfer fee per contract. Trade Date Adjustment (T). Same day trade corrections are permitted on all fields except the identity of the opposite Clearing Member. These corrections cannot be made to impact a Same Day Transaction.~~
- ~~2. Trade Date + 1 Adjustment (T+1). Corrections are permitted on all fields except the identity of the opposite Clearing Member. These corrections cannot be made to impact a Deferred Settlement Transaction that settles that day after Netting Cut Off Time.~~
- ~~3. Open Position Change. These will be performed through the Position Transfer function of the CDCC Clearing Application.~~
2. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another on a post trade basis.

Conditions applicable to adjustments:

If there are any adjustments that affect another Clearing Member (on the opposite side of the original Transaction), both Clearing Members must come to an agreement as to the adjustments to be implemented. If one Clearing Member does not enter any changes through the CDCC Clearing Application, the Transaction will stay as is with respect to both Clearing Members.

Notification of all adjustments must be completed prior to the time specified in Section 2 of this Operations Manual. All completed adjustments are processed when they have been verified and validated by CDCC.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

INTRODUCTION

OPTIONS

At the time of exercise of an Option, CDCC is responsible for issuing settlement records that will facilitate the delivery of the Underlying Interest to the Clearing Member who chooses to exercise that Option (in case of the exercise of a call Option) or the payment of the relevant Exercise Price (in the case of the exercise of a put Option). When a Clearing Member exercises an Option, CDCC assigns the delivery obligation to a Clearing Member who is the writer of Options in the same Series of Options in any one of its Client Account(s), Firm Account(s), or Multi-Purpose Account(s).

Assignment is made specifically to one of these accounts by CDCC. If assignment is made to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

Delivery of the Underlying Interest and payment of the Exercise Price is to be effected by Clearing Members through the settlement method instructed by CDCC.

FUTURES

All Futures which have not been closed out by the last trading day will be marked-to-market up to and including the close of the last trading day. In addition, the seller of a Future must submit a Tender Notice in the Delivery Month in accordance with applicable Contract Specifications.

When a seller of a Future submits a Tender Notice to CDCC, CDCC assigns it to a Clearing Member which is the buyer of a Future in the same Series of Futures in any one of its accounts. Assignment is made specifically to one of these accounts by CDCC. If assignment is made by CDCC to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a specific Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

EXPIRY PROCEDURES

Operations Notices are sent to Clearing Members setting forth the expiry procedures and it is the responsibility of Clearing Members to ensure that they have adequate processes in place to meet requirements and timelines prescribed by CDCC.

OPTIONS

For all information pertaining to the Option expiry procedures, Clearing Members should refer to the Operational Notices which are issued approximately two (2) weeks prior to the Expiration Date.

CDCC's Responsibilities on Expiry Saturday

1. Review/modify Underlying Interest prices and notify the Clearing Members of any changes.
2. Notify Clearing Members (via e-mail) of any changes in the Production Schedule.
3. Notify Clearing Members (via e-mail) of the status of expiry processes.
4. Assist Clearing Members.

Clearing Members' Responsibilities on Expiry Saturday

1. Ensure that the staff responsible for expiry is familiar with all expiry procedures and processes.
2. Validate entries using the Inquiry Screens or the relevant reports:
 - a. Verify that all Open Positions and adjustments match internal records, enter any new Transaction or Open Position adjustments accordingly.
 - b. Verify that the number of Options that will be automatically exercised on Expiration Date are correct.
 - c. For any changes, indicate on the Expiry Response Screen under the "Override" column the total number of Options for each Series of Options to be exercised.
 - d. Verify any Out-Of-The-Money Options or At-the-Money Options to be exercised and enter the number of Options under the "Override" column.
3. Validate changes using the reports and/or the on-line access to CDCC Clearing Application (in accordance with timeframes set forth in Section 2 of this Operations Manual).
4. If required, make any allowed modifications (in accordance with timeframes set forth in Section 2 of this Operations Manual).

Daily Expirations (other than Expiry Saturday)

When CDCC receives Underlying Interests' closing and opening prices from the relevant Exchange, the prices are specified on the relevant Expiry Report and are used to determine the In-the-Money Options and the Out-of-the-Money Options.

Clearing Members have until the Close of Business on any Business Day up to the Expiration Date to submit an Exercise Notice with respect to American Style Options to CDCC. European Style Options can only be exercised on their Expiration Date.

OTCI Options can expire on any Business Day.

Typically, exercise instructions must be entered online on the CDCC Clearing Application by Clearing Members. However, if unavailable, the following manual process can be used to submit Exercise Notices to CDCC:

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

1. The proper CDCC Exercise Notice form must be used.
2. The authorization stamp of the Clearing Member must be affixed on the form.
3. The properly delivered Exercise Notice will be accepted at any CDCC office.
4. The Exercise Notice must be properly delivered by five minutes before Close of Business.
5. The Clearing Member staff who deliver the Exercise Notice must be available until CDCC processes the exercise.

The CDCC Clearing Application will ensure that there are sufficient Option Open Positions ~~Options~~ of the relevant Series of Options in the relevant account of the Clearing Member for exercising the relevant Exercise Notice; if not, CDCC will reject the Exercise Notice. If there are sufficient Option Open Positions ~~Options~~, the Clearing Member's Long Position is immediately reduced by the number of Option Open Positions ~~Options~~ exercised.

AN EXERCISE NOTICE CAN BE CANCELLED UNTIL CLOSE OF BUSINESS ON THE DAY IT IS SUBMITTED.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

OPTIONS

Exercises

Delivery and payment on Exercised Positions are due on the Exercise Settlement Date.

Until Exercise Settlement Date, CDCC continues to require sufficient Margin to ensure that, if a Clearing Member defaults, any Exercise Notice submitted by it or assigned to it, as the case may be, will be completed.

Exercised Positions and Assigned Positions are reported to Clearing Members through relevant reports listed in Section 3 of this Operations Manual.

Assignments

After the Close of Business on any Business Day on which an Exercise Notice is submitted to CDCC, assignment of such Exercise Notice is made on a random selection basis, in which each account of a Member is treated separately. The reason for the separation is to ensure that each Clearing Member's Client Account(s), Firm Account(s), and Multi-Purpose Account(s) have the same probability of being assigned Exercise Notices. When a Clearing Member is assigned an Exercise Notice for a given account (e.g. the Firm Account) it may not allocate that assignment to another account (e.g. a Client Account).

An attempt will be made by CDCC to assign an Exercise Notice for more than 10 Options contracts in blocks not exceeding 10 contracts in each Series of Options.

Exercise Notices assigned to a Clearing Member's Client Account shall be allocated by the Clearing Member to any of its clients based on any method which is equitable and consistent with the rules of the relevant Exchange.

Automatic Exercise - Options and Options on Futures

To safeguard Clearing Members from possible errors, CDCC has instituted an Automatic Exercise procedure for expiring Series of Options. In simple terms, all In-the-Money Options and Options on Futures over predetermined thresholds are automatically exercised by CDCC, unless Clearing Members instruct otherwise.

CDCC establishes predetermined thresholds and informs Clearing Members that every Option and Option on Future above that threshold will be automatically exercised. CDCC will not automatically exercise any At-the-Money Option. CDCC provides a method for Clearing Members to make changes to the Automatic Exercise function of the CDCC Clearing Application. This allows Clearing Members to either opt in or opt out of the Automatic Exercise with respect to the Options and Options on Future they hold. For example, a Member can choose not to exercise an Option that is above the predetermined threshold but to exercise another Option that is At-the-Money or Out-of-the-Money.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES**Exercised and Assigned Option Contracts****a) Exercised Positions**

A Clearing Member who has exercised an Option has an obligation to either deliver the Underlying Interest (in the case of a Put Option) or pay the Exercise Price (in the case of a Call Option).

b) Assigned Positions

A Clearing Member who has been assigned an Exercise Notice has the obligation to pay the Exercise Price upon delivery of the Underlying Interest (in the case of a Put Option) or to deliver the Underlying Interest against payment (in the case of a Call Option).

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

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 LGB three Business Days prior to the first Business Day of the Delivery Month up to and including the fourth to last Business Day of the Delivery Month.

CGZ two Business Days prior to the first Business Day of the Delivery Month up to and including the third to last Business Day of the Delivery Month.

MCX before Close of Business on the last trading day.

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

All outstanding Short Positions in ONX are automatically tendered on the first Business Day of the contract month, 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.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

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

FIXED INCOME TRANSACTIONS

CDCC acts as central counterparty to all Fixed Income Transactions that are submitted by Clearing Members to CDCC for clearing. All Fixed Income Transactions shall be submitted for clearing to CDCC through an Acceptable Marketplace or through the CDS trade matching facility routing matched trades to CDCC. As a result of these Transactions being novated to CDCC, CDCC will be either the buyer or the seller of all settlement records that are sent to the Central Securities Depository.

Various transmissions~~batches~~ of settlement records will be sent by CDCC to the Central Securities Depository on a daily basis.

Same Day Transactions gross settlement records

For Same Day Transactions, two settlement records consisting of settlement instructions (Gross Delivery Requirements and Gross Payment Against Delivery Requirements) will be sent gross to the Central Securities Depository to be settled on a real-time gross basis throughout the day immediately after each Same Day Transaction is novated to CDCC until the Submission Cut-Off Time specified in Section 2 of this Operations Manual.

Forward Settlement Unsettled Items intra-day process

~~In respect of any Unsettled Items of Same Day Transactions and Futures Contracts on an, at the Intra Day Gross Settlement Cut Off Time specified in Section 2 of this Operations Manual, CDCC shall send new settlement records to the Central Securities Depository reducing any Gross Delivery Requirement of a Clearing Member in favour of CDCC pursuant to a Same Day Transaction by any Gross Delivery Requirement of CDCC in favour of the same Clearing Member in respect of the same Acceptable Security pursuant to another Same Day Transaction, and/or reducing any Gross Payment Against Delivery Requirement of a Clearing Member in favour of CDCC pursuant to a Same Day Transaction by any Gross Payment Against Delivery Requirement of CDCC in favour of the same Clearing Member pursuant to another Same Day Transaction.~~

Deferred Settlement Transactions net settlement records

For ~~Forward~~Deferred Settlement Transactions and Futures Contracts on Acceptable Securities, settling on the next Business Day, two settlement records consisting of net settlement instructions (Net Delivery Requirements and Net Payment Against Delivery Requirements) will be sent to the Central Securities Depository on a net basis at the Netting Cut Off Time specified in Section 2 of this Operations Manual for settlement on the next Business Day.

Morning net DVP Pre-settlement netting process

In respect of any Pending Payment Against Delivery Requirements at the Morning Netting Cycle Timeframe specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Morning Net Payment Against Delivery Requirements) to the Central Securities Depository reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member. The Clearing Member shall have sufficient funds in its cash account at CDS to settle the lesser of (i) its Morning Net Payment Against Delivery Requirement and (ii) the amount of the CDCC Daylight Credit Facility during the Morning Net DVP Settlement Timeframe specified in Section 2 of this Operations Manual.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

Afternoon net DVP settlement process

~~In respect of any Pending Settlement Requirements at the Afternoon Netting Cycle Timeframe specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Afternoon Net DVP Settlement Requirements) to the Central Securities Depository reducing any Pending Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Delivery Requirements of CDCC in favour of the same Clearing Member in respect of the same Acceptable Security, and/or reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member. The Clearing Member shall have sufficient funds and sufficient Acceptable Securities in its cash and securities accounts at CDS to settle its Afternoon Net DVP Settlement Requirements by the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual. With respect to each Clearing Member who submits Deferred Settlement Transactions, CDCC determines the Net Delivery Obligation(s) and/or the Net Payment Obligation as set forth in Subsection D-606(3) of the Rules. Any other delivery and payment obligation between a Clearing Member and CDCC under any Futures contract settling at the relevant Central Securities Depository will be aggregated to and netted against the Net Delivery Obligation(s) and/or the Net Payment Obligation as set forth in paragraphs (b) and (c) of Subsection A-801(2) of the Rules, such that CDCC shall send to the relevant Central Securities Depository netted settlement instructions (Net Delivery Requirements and Net Payment Against Delivery Requirements) at the Netting Cut Off Time.~~

Delivery

Securities delivery against payment is effected on a DVP basis through the Central Securities Depository.

In the event of a failed or partial delivery, CDCC will take appropriate action in accordance with Section A-804 of the Rules.

CDCC shall determine the net settlement instructions by Clearing Member, CUSIP/ISIN and Settlement Date for all Transactions comprised in the ~~Forward Settlement Transactions pre-settlement~~ netting process (as specified in the above section entitled as such) submitted to CDCC for clearing as of the Netting Cut Off Time. These settlement instructions shall be submitted to the relevant Central Securities Depository on a daily basis and in the form and settlement tranche acceptable to the Central Securities Depository for this purpose.

For Same Day Transactions, CDCC shall determine the gross settlement instructions (Gross Delivery Requirements and Gross Payment Against Delivery Requirements) by Clearing Member and the applicable CUSIP/ISIN, and submit such instructions to the relevant Central Securities Depository (in the form and settlement tranche acceptable to such Central Securities Depository) immediately after each Same Day Transaction is novated to CDCC for real-time settlement. Notwithstanding the foregoing, at the ~~Morning Netting Cycle Timeframe~~~~Intra-Day Gross Settlement Cut-Off Time~~, CDCC shall cancel previously issued ~~Pending Payment Against Delivery Requirements~~~~gross settlement instructions~~ and replace them by ~~Morning Net Payment Against Delivery Requirements~~~~off-settled settlement instructions~~ by Clearing Member ~~and the applicable CUSIP/ISIN for all Unsettled Items comprised in the Unsettled Items intra-day process~~ (as specified in the above section entitled "~~Morning net DVP settlement process~~" as such).

In the event of a Failed Delivery for a particular settlement tranche to a Net Delivery Requirement ~~or to an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities by the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual~~, CDCC shall, on a best efforts basis, attempt to coordinate a partial delivery among those Receivers of Securities for that particular settlement tranche of the relevant Acceptable Security. In the event that no partial settlement is possible, the settlement tranche will be included in the Rolling Delivery Obligation of the failing Clearing Member and CDCC shall re-attempt settlement of the failed settlement tranche on the next Business Day. In the case of a Failed Delivery with respect to a Gross Delivery Requirement ~~resulting from, CDCC will force~~ a ~~Same-Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time to be settled by the End of Day DVP Settlement Time, CDCC~~

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

will failed or partially deliver the partial delivery of the same quantity of Acceptable Securities on the Clearing Member who is the Receiver of Securities with respect to the relevant Same Day Transaction.

In the event of that a Failed Payment Against Delivery at the Morning Net DVP Settlement Timeframe specified in Section 2 of this Operations Manual, CDCC shall impose a fine on the Clearing Member corresponding who is Receiver of Securities fails to the charges which are levied on CDCC for the usage take receipt of a portion or all of the CDCC Daylight Credit Facility settlement tranche as determined by a result of this Failed Net Payment Against Delivery Requirement or a Gross Payment Against Delivery. If Requirement, as the case may be, the Clearing Member still does not have sufficient funds in its cash account at the Central Securities Depository determined by CDCC to settle the relevant Morning Net Payment Against Delivery Requirement, or be in the amount of the CDCC Daylight Credit Facility (whichever is less) by 11:00 a.m., the Clearing Member shall be deemed a Non-Conforming Member, in addition fail to any other remedies that CDCC may apply to such situation in accordance with Subsection A-806(1) of the Rules.

In the event of a Failed Payment Against Delivery at the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual, the Clearing Member shall be deemed a Non-Conforming Member and receive position shall be required to pay to CDCC any charges which are levied on CDCC for the overnight financing of this Failed Payment Against Delivery failed to receive position, in addition to any other remedies that CDCC may apply to such situation in accordance with Subsection A-806(2) of the Rules.

Buy In Process

As set forth in Subsection A-804(3) of the Rules, CDCC may effect a buy-in transaction on its own initiative or pursuant to a formal request by a Receiver of Securities affected by a Failed Delivery by purchasing the missing quantity of the relevant Acceptable Securities on the open market.

When initiated by a Receiver of Securities, the buy-in process shall be as followed:

1. The Receiver of Securities who wants to initiate a buy-in must send to CDCC the appropriate Buy-In Scan Form (which is accessible on CDCC's Secured Website) duly completed, with the following information:
 - a. Clearing Member's Name;
 - b. Clearing Member's Number
 - c. The Acceptable Security (ISIN) involved;
 - d. The total quantity of the Failed Delivery;
 - e. The quantity requested in the buy-in;
 - f. The buy-in delivery date, which shall be the current Business Day + not less that two (2) complete Business Days.

The Buy-In Scan Form must be submitted to CDCC in the prescribed format with the authorization stamp of the Clearing Member properly affixed on the form (with initials).

2. Upon receiving the duly completed Buy-In Scan Form from a Receiver of Securities, CDCC will work with the Provider(s) of Securities responsible for the Failed Delivery in order to validate if the delivery can be made within the number of Business Days specified in the Buy-In Scan Form (the "Buy-In Notice Delay").
3. At the expiry of the Buy-In Notice Delay, if the Provider(s) of Securities has not delivered the relevant Acceptable Securities, CDCC will initiate a cash trade on the open market.
4. Once delivery is received by CDCC on the cash trade, CDCC will deliver the Acceptable Securities to the Receiver of Securities that requested the buy-in transaction.
5. All fees incurred to CDCC, including all costs with respect to the buy-in transaction shall be charged to the Provider(s) of Securities responsible for the Failed Delivery. Such fees will be included on the Monthly

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

Clearing Fees Details Report (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

SETTLEMENT

INTRODUCTION

CDCC provides the mechanism for a single cash settlement with respect to amounts which are not settled through a Central Securities Depository due by a Clearing Member to CDCC and by CDCC to such Clearing Member on a daily basis, as prescribed in Paragraph A-801(2)(a) of the Rules. Clearing Members are able to make a single payment to CDCC or receive a single payment from CDCC that represents the net value of their purchases, sales, gains and losses and on a monthly basis clearing fees. Additionally, the CDCC Clearing Application incorporates the amounts due from the Clearing Members for Margin and the exercise/assignment Settlement Amounts of cash settled Transactions.

Settlement of trading in a given currency is kept separate throughout the clearing procedure. All payments in the Canadian currency to and from CDCC are collected via an irrevocable payment processing system, known as the Large Value Transfer System (LVTS), or any other payment method approved by CDCC. Any US dollar payments are collected via a payment processing system known as Financial Electronic Data Interchange (FEDI). As described in the Risk Manual, the amount of Margin due from the Clearing Member is computed on the basis of that day's Open Positions shown on the relevant report.

SETTLEMENT COMPUTATION

The calculation of a Clearing Member's Net Daily Settlement amount is based on Transactions (including adjustments, exercises, tenders and assignments) and Margin requirements, and on a monthly basis clearing fees.

The Net Daily Settlement amount for each Clearing Member is determined in the following manner:

- (i) Total Margin required and any additional margin requirements for each account is compared with Margin Deposits.
- (ii) The premiums, gains and losses, cash settled exercise/assignment Settlement Amounts, Fixed Income Mark-to-Market Amounts and cash adjustment for each account type (Client Account(s), Firm Account(s) and Multi-Purpose Account(s)) are netted to a single pay or collect figure.
- (iii) If additional margin is required, CDCC will instruct the Clearing Member to facilitate payment to CDCC.
- (iv) Miscellaneous charges such as clearing fees are also included on a monthly basis. In addition, applicable fines or any other amounts due would be collected on a monthly basis.

All cash settlements to CDCC are to be made to CDCC's settlement account at the Bank of Canada, or to any other account of CDCC with a Schedule I bank, as designated by CDCC.

FINES

CDCC applies fines with regards to late payments to discourage Clearing Members from being late in the performance of their payment obligations.

SETTLEMENT

Overnight Settlement

Payments for overnight settlement (mark-to-market, premiums, margin shortfalls etc.) must be received by 7:45 a.m. the next Business Day.

If a payment is late, CDCC will notify the Clearing Member that it is being fined. The fine structure is as follows: Based on a rolling thirty days – if there has been a prior occurrence within the preceding thirty days, it is the second occurrence.

If the late payment is caused by an infrastructure problem, fines will not be imposed.

First occurrence of a late payment:

- if CDCC has the payment in its Bank of Canada account by 7:55 a.m. the next Business Day, there will be no fine.
- if the payment is received by 8:30 a.m. the next Business Day, CDCC will impose a \$1,000 fine.
- if the payment is received by 8:59 a.m. the next Business Day, CDCC will impose a \$2,500 fine.
- if the payment is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member Non-conforming

On the second or more occurrences of a late payment:

- if CDCC has the payment in its Bank of Canada account by 7:55 a.m. the next Business Day, CDCC will impose a \$1,000 fine
- if the payment is received after 7:55 a.m. but before 8:30 a.m. the next Business Day, CDCC will impose a \$5,000 fine.
- if the payment is received by after 8:30 a.m. but before 8:59 a.m. the next Business Day, CDCC will impose a \$10,000 fine.
- if the payment is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member Non-conforming.

Intraday Margin Calls

CDCC encourages its Clearing Members to cover intraday Margin calls with collateral other than cash.

Clearing Members have one (1) hour from notification to cover an intraday Margin call. If the payment is late, the following fines shall apply:

- if the payment is received later than 1 hour after but before 1 hour and 15 minutes from notification, CDCC will impose a \$500 fine.
- if the payment is received later than 1 hour and 15 minutes but before 1 hour and 30 minutes from notification, CDCC will impose a \$1,000 fine.
- if the payment is not received by 1 hour and 30 minutes from notification, CDCC will deem the Clearing Member Non-conforming

Collection of Fines

CDCC will collect any applicable fines with the month-end clearing fee billing.

ADDITIONAL MARGIN PROCESSING

CLEARING FUND

Each Clearing Member approved to clear Exchange Transactions and/or OTCI Transactions and/or Fixed Income Transactions shall maintain a deposit in the Clearing Fund of the amounts from time to time required by the CDCC in accordance with Rule A-6. The Clearing Fund has been established to protect CDCC and its members from potential defaults and other market events.

Each Clearing Member's contribution includes a required Base Deposit and a Variable Deposit, calculated on a monthly basis. The details of the Base and Variable Deposits are set forth in Rule A-6.

Clearing Fund Statement Report

On the first Business Day of each month, CDCC will issue to each Clearing Member a Clearing Fund Statement that lists the current amount of the Clearing Member's Deposits and the amount of Deposit required on the basis of the monthly calculation of the Variable Deposit.

Any deficit between the amounts held on deposit and the monthly requirement must be satisfied by 2:00 p.m. on the next 3rd Business Day ~~of the month~~.

Deposits

Deposits to the Clearing Fund shall be in cash or in Government Securities, subject to the same criteria as the Margin, as set forth in Schedule A hereof, the Risk Manual.

Deposits to the Clearing Fund are made and valued in the same manner and are subject to the same deadlines as for Margin deposits, as set forth in Section 2 of this Operations Manual.

Withdrawals

Clearing Members may request to withdraw any surplus amount from the Clearing Fund, subject to applicable deadlines, as set forth in Section 2 of this Operations Manual.

Substitutions

Substitutions of assets (other than cash) in the Clearing Fund are made in the same manner and subject to the same deadlines as Margin Fund substitutions of assets (other than cash), as set forth in Section 2 of this Operations Manual ~~deposits and withdrawals~~.

ADDITIONAL MARGIN PROCESSING

DIFFERENCE FUND

The Difference Fund is Margin Deposits held by CDCC as discretionary margin, such as: (1) Unsettled Items Margin, (2) Daily Capital Margin Monitoring, (3) Advance calls for settlement of losses, (4) OTCI Additional Margin, (5) Banking Holidays Additional Margin, and (6) Intra-Day Margin.- CDCC accepts ~~only Cash or Government Securities~~ as Deposits to the Difference Fund in the forms of Margin set forth in Section A-709 of the Rules, in the proportions specified therein.

(1) ~~Unsettled Items Margin~~

Security Funds, as such term is defined in Sections B-401, C-501 and D-301 of the Rules, corresponding to an amount equal to not less than 105% of the market value of the Underlying Interest which a Clearing Member has failed to timely deliver, in accordance with Sections B-412, C-517 and D-307 respectively of the Rules.

(2) ~~Daily Capital Margin Monitoring~~

The amount by which the Margin requirements of a Clearing Member exceeds its capital, in accordance with Section A-710 of the Rules.

(3) ~~Advance Calls for Settlement of Losses~~

An amount that CDCC estimates will be needed to meet losses resulting from particular marked conditions or price fluctuations, in accordance with Section C-303 of the Rules.

(4) ~~OTCI Additional Margin~~

An amount representing the premium value collected from the Buyer before an OTCI Option is confirmed, which amount shall be available for withdrawal the morning after the Transaction has been processed, in accordance with Section D-107 of the Rules.

(5) ~~Banking Holidays Additional Margin~~

An amount corresponding to 10% of Margin requirements is required to be posted as additional margin by Clearing Members on banking holidays, which is released on the morning of the following Business Day.

(6) ~~Intra-Day Margin~~

Additional margin may be requested from a Clearing Member, at CDCC's sole discretion at any time and from time to time as it deems appropriate, due to some adverse change in the market of a given Underlying Interest or in the financial position of the Clearing Member, in accordance with Section A-705 of the Rules.

Deposits, Withdrawals, Substitutions

Deposits, withdrawals and substitutions of assets (other than cash) in the Difference Fund are made in the same manner and subject to the same deadlines as Margin Fund deposits, withdrawals and substitutions of assets (other than cash), in accordance with Section 2 of this Operations Manual.

Note:

Information with respect to the Margin Fund is to be found in the Risk Manual, Schedule A of this Operations Manual.

CLEARING FEES

Clearing services fees

Clearing fees are charged to both Clearing Members submitting a Transaction for clearing to CDCC and are based on the number of contracts involved. There is a minimum monthly clearing fee charge with respect to each product type (Futures, Options, OTCI (other than Fixed Income Transactions), Fixed Income Transactions). Once a Clearing Member, otherwise eligible to do so in accordance with the Rules, starts using a particular clearing service by submitting a first Transaction of such product type, the applicable minimum monthly clearing fee shall be charged to the Clearing Member thereafter whether the Clearing Member actually uses the services or not during any given month, until the Clearing Member duly notifies CDCC in writing that it wishes to withdraw from the clearing services for that product type, effective sixty (60) days after CDCC receives such notice, provided there is no outstanding Transaction of such product type standing to an account of the Clearing Member at such time. Notwithstanding the foregoing, with respect to Fixed Income Clearing, the applicable minimum monthly clearing fee shall be charged to the Fixed Income Clearing Member upon the request to use this clearing service being submitted by the Clearing Member in the form prescribed by CDCC and countersigned by CDCC. Clearing Members should refer to the CDCC website www.cdcc.ca for a complete list of applicable fees.

Clearing fees are ~~collected~~included on the Daily Settlement Summary Report (MS01) of the second Business Day of each month as a separate pay figure ~~and. These fees~~ are payable to CDCC on the morning of the 5th Business Day of each month through LVTS or any other payment method approved by CDCC. The MB01 Monthly Clearing Fees Invoice, MB02 Monthly Clearing Fees Details Reports and MB03 Monthly Fixed Income Clearing Fees Invoice are generated on every 2nd Business Day of each month and are available to Clearing Members on the morning of the 3rd Business Day of each month.

Fees for additional services

There are a number of discretionary services available to Clearing Members, in addition to the normal clearing services. These are published periodically as an Operational Notice to Members and can be viewed on the Secured Website. CDCC issues a statement on a monthly basis for these services. The fees are collected as per the date on the statement through LVTS or any other payment method approved by CDCC.

Fees for cost incurred at CDS (or other Central Securities Depository)

Any settlement cost incurred by CDCC within CDSX (or the settlement platform of another Central Securities Depository) will be charged to the Clearing Member with which CDCC is settling. Such cost will be included on the Monthly Clearing Fees Details Report (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

CLEARING MEMBER SECURITY OFFICER



Clearing Members shall designate up to three (3) individuals within their firm who will be responsible for handling the Clearing Member's User Profiles ("Security Officers"). The designation of Securities Officers is done by filing with CDCC a SOLA Clearing – Security Officer Identification form, which form shall be renewed on an annual basis.

Once duly designated, a Security Officer shall submit a SOLA Clearing User Profile Request form to request that CDCC add or delete a User Profile (this form is accessible on CDCC's Secured Website).

The Security Officer must complete this form with the authorization stamp of the Clearing Member properly affixed on the form (with initials). When the form is complete, the Clearing Member can either scan the form and send it to the Member Services group e-mail address: cdccops@cdcc.ca, or fax the form to one of CDCC's offices.

Upon receipt of the form, the process for the addition / deletion is performed by one of CDCC's senior managers.



Risk Manual

Version of February 10, 2012

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Glossary

Margin Interval: Parameter established by the Corporation which reflects the maximum price fluctuation that the Underlying Interest could be expected to have during the liquidation period. The Margin Interval (MI) calculations are based on the historical volatility of the Underlying Interest and these calculations are re-evaluated on a weekly basis. If necessary, the Corporation may update the Margin Intervals more frequently. The Margin Interval is used to calculate the Initial Margin of every Derivative Instrument.

Haircut: Percentage discounted from the market value of Securities pledged as collateral for Margin Deposit. The discount reflects the price movement volatility of the collateral pledged. Thus, this reduction assures that even if the collateral's market value declines, there is time to call for additional collateral to adjust its value to the required level.

Initial Margin: The Initial Margin covers the potential losses that may occur over the next liquidation period as a result of market fluctuations. The Initial Margin amount is calculated using the historical volatility of the Underlying Interest return for Options contracts, futures prices for Futures contracts and yield-to-maturity (YTM) of the on-the-run security for Fixed Income Transactions.

Variation Margin: The Variation Margin takes into account the portfolio's liquidating value (this is also known as the Replacement Cost or RC) which is managed through the Mark-to-Market daily process.

Price Scan Range: The maximum price movement reasonably likely to occur, for each Derivative Instrument or, for Options, their Underlying Interest. The term PSR is used by the Risk Engine to represent the potential variation of the product value and it is calculated through the following formula:

$$\text{PSR} = \text{Underlying Interest Price} \times \text{MI} \times \text{Contract Size}$$

Volatility Scan Range: The maximum change reasonably likely to occur for the volatility of each Option's Underlying Interest price.

Risk Array: A Risk Array (RA) is a set of 16 scenarios defined for a particular contract specifying how a hypothetical single position will lose or gain value if the corresponding risk scenario occurs from the current situation to the near future (usually next day).

Combined Commodity: The Risk Engine divides the positions in each portfolio into groupings called Combined Commodities. Each Combined Commodity represents all positions on the same ultimate Underlying Interest – for example, all Futures contracts and all Options contracts ultimately related to the S&P/TSX 60 Index.

Scanning Risk: The Risk Engine chooses the difference between the current market value of an Underlying Interest and its most unfavourable projected liquidation value obtained by varying the values of the Underlying Interest according to several scenarios representing adverse changes in normal market conditions.

Active Scenario: The number of the Risk Arrays scenario that gives the largest amount (worst case scenario).

Short Option Minimum: Rates and rules to provide coverage for the special situations associated with portfolios of deep out-of-the-money short option positions. This amount will be called if it is higher than the result of the Risk Arrays.

Liquidity Interval: The Liquidity Interval is calculated based on the historical bid-ask price spread of the Underlying Interest according to the same formula for Margin Interval.

Buckets: All Acceptable Securities of Fixed Income Transactions that behave in a similar manner are grouped together into “Buckets” and each Bucket behaves as a Combined Commodity. Acceptable Securities are bucketed according to their remaining time to maturity and issuer. Due to the nature of the bucketing process, the Acceptable Securities’ assignment will be dynamic in that they will change from one Bucket to the other as the Acceptable Security nears maturity.

MTM Price Valuation: The MTM Price Valuation is the difference between the market value of the Security and the funds borrowed. This amount is collateralized and should be credited (or debited) to the Repo Party’s Margin Fund and debited (or credited) to the Reverse Repo Party’s Margin Fund.

Intra-Commodity (Inter-Month) Spread Charge: Underlying Interests’ prices, from a maturity month to another are not perfectly correlated. Gains on a maturity month should not totally offset losses on another. To fix this issue, the Risk Engine allows the user to calculate and to apply a margin charge relative to the Inter-Month spread risk in order to cover the risk of these two positions.

Inter-Commodity Spread Charge: The Corporation considers the correlation that exists between different classes of Futures contracts when calculating the Initial Margin. For example, different interest rate Futures contracts are likely to react to the same market indicators, but at different degrees. For instance, a portfolio composed of a long position and a short position on two different interest rate Futures contracts will be likely less risky than the sum of the two positions taken individually.

Clearing Engine: The Corporation uses SOLA® Clearing as its Clearing Engine.

Risk Engine: The Corporation uses the Standard Portfolio Analysis system (SPAN®) as its Risk Engine.

The terms and concepts herein defined, as used in this Risk Manual, are derived from the CME Group proprietary SPAN® margin system, adapted for CDCC’s licensed use thereof.

Summary

The Corporation applies rigorous risk management methods to protect their Clearing Members.

The main aspects of risk management that are specifically addressed in this manual are as follows:

- The acceptability of Underlying Interests;
- The Margin calls that occur when a member's potential loss exceeds its Margin Deposit;
- The monitoring of each Clearing Member's credit risk by regular tracking of Margin Deposit and Capital;
- The Clearing Member's contribution to the Clearing Fund;
- The management of the forms of collateral accepted for Margin Deposit and the calculation of the Haircuts that apply to these assets;
- The monitoring program;
- The adjustments in contract terms; and
- The default management process.

ACCEPTABILITY OF UNDERLYING INTERESTS

ACCEPTABLE UNDERLYING INTERESTS OF EQUITY OPTIONS

- *Section B-603* of the Rules sets out the eligibility criteria for Equity Options.
- *Section B-604* of the Rules sets out the ineligibility criteria for Equity Options.

CDCC reviews and publishes quarterly the eligibility threshold and deficiency threshold in terms of market capitalization and volume (expressed as an average daily volume of the last 20 business days) for clearing Equity Options.

ACCEPTABLE UNDERLYING INTERESTS OF SHARE FUTURES

- *Section C-1503* of the Rules sets out the eligibility criteria for Share Futures.
- *Section C-1504* of the Rules sets out the ineligibility criteria for Share Futures.

CDCC reviews and publishes quarterly the eligibility threshold and deficiency threshold in terms of market capitalization and volume (expressed as an average daily volume of the last 20 business days) for clearing Share Futures.

ACCEPTABLE UNDERLYING INTERESTS OF OTCI

- *Section D-104* of the Rules sets out the acceptance criteria for OTCI.

CDCC reviews and publishes quarterly on its website a list of the single name equities and ETFs that are Acceptable Underlying Interests for clearing OTCI.

Between two quarterly publications of the list of Acceptable Underlying Interests, a Clearing Member who wishes to clear OTCI for which an Underlying Interest is not included on the list must obtain the Corporation's prior approval. The Underlying Interest must at least meet the acceptance criteria prescribed in *Section D-104* of the Rules.

ACCEPTABLE UNDERLYING INTERESTS OF CASH BUY OR SELL TRADES

For the application of *Sections D-104* and *D-603* of the Rules, Securities are acceptable for Cash Buy or Sell Trades clearing if they meet the following criteria:

- The issuer must be eligible, which includes the following issues:
 - Bonds and Treasury bills issued by the Government of Canada, including real return issues;
 - Canada Mortgage and Housing Corporation debt securities;
 - Bonds issued by Business Development Bank of Canada;

- Bonds issued by Export Development Canada;
- Bonds issued by Farm Credit Canada; and
- Bonds issued by Canada Post;
- The bonds must be repayable at maturity;
- The bonds must be denominated in Canadian dollars;
- The coupon type must be fixed, real return, step-up or zero (Treasury bills are eligible);
- The net amount outstanding¹ must be greater than or equal to \$250 million;
- The bonds' prices must be issued by a source that is acceptable to the Corporation.

ACCEPTABLE UNDERLYING INTERESTS OF REPURCHASE TRANSACTIONS

For the application of the provisions of *Sections D-104* and *D-603* of the Rules, Securities are eligible for clearing of Repurchase Transaction if they meet the following criteria:

- The Underlying Interest must be an Acceptable Underlying Interests of Cash Buy or Sell Trades;
- The Purchase Date of the Repurchase Transaction must be no earlier than the Novation Date;
- The Repurchase Date of the Repurchase Transaction must not be more than 365 days later than the Purchase Date of the Repurchase Transaction and must be no later than the maturity date of the Acceptable Security.

¹ The net amount outstanding is defined as the outstanding amount issued on the market minus the stripped coupon bonds and issuer repurchases.

MARGIN DEPOSIT

The Corporation has three different funds for margining purposes and each serves a specific purpose:

- Margin Fund
- Difference Fund
- Clearing Fund

MARGIN FUND

The Margin Fund is composed of the Initial Margin and the Variation Margin. The Initial Margin covers the potential losses and market risk that may occur as a result of future adverse price movements across the portfolio of each Clearing Member under normal market conditions. Furthermore, in the event of a default, the Corporation is faced with closing out the defaulters' portfolio within a short period (the liquidation period). In a complementary manner, Variation Margin is a daily payment process that covers the market risk due to the change in price since the previous day, ahead of the default of one of its Clearing Members. Variation Margin is settled in cash for Futures contracts and collateralized for Options contracts, OTCI and Fixed Income Transactions.

INITIAL MARGIN

As fundamental inputs to calculate the Initial Margin, the Corporation uses the following parameters: 1) confidence level (to reflect normal market conditions), 2) assumed liquidation period and 3) historical volatility over a specific period.

Specifically, the Corporation uses three standard deviations to consider a confidence level over 99% under the normal distribution's assumption. The Corporation also considers a variable number of days as an acceptable liquidation period. The Initial Margin amount is calculated using the historical volatility of the daily price returns of the Underlying Interests for Options contracts, the daily price returns of the futures prices for Futures contracts and the yield-to-maturity (YTM) daily variation of the on-the-run security for Fixed Income Transactions. The historical volatility, combined with the liquidation period and the confidence level gives the Margin Interval (MI) as described below.

MARGIN INTERVAL (MI) CALCULATION

The Margin Interval calculations are re-evaluated regularly. However, the Corporation may use its discretion and update the Margin Intervals more frequently if necessary. The Margin Intervals are used to calculate the Initial Margin for each Derivative Instrument.

The Margin Interval (MI) is calculated using the following formula:

$$MI = 3 \times \sqrt{n} \times \text{Max}[\sigma_{20 \text{ days}}, \sigma_{90 \text{ days}}, \sigma_{260 \text{ days}}]$$

Where 'n' is the number of liquidation days², 'σ' is the standard deviation of the daily variation over 20, 90 and 260 days, and 3 is equivalent to 99.87% for a one-tail confidence interval under the normal distribution's assumption.

Price Scan Range (PSR) Calculation

In order to calculate the most unfavourable projected liquidation value, the Risk Engine uses the MI of the above formula to calculate the Price Scan Range (PSR) and to run several scenarios through its Risk Array calculation (for a detailed description refer to the section on Risk Arrays below).

A Risk Array is a set of 16 scenarios defined for a particular contract specifying how a hypothetical single position will lose or gain value if the corresponding risk scenario occurs from the current situation to the near future (usually next day).

PSR is the maximum price movement reasonably likely to occur, for each Derivative Instrument or, for Options contracts, their Underlying Interest. The term PSR is used by the Risk Engine to represent the potential variation of the product value and it is calculated through the following formula:

$$\text{PSR} = \text{Underlying Interest Price} \times \text{MI} \times \text{Contract Size.}$$

INITIAL MARGIN CALCULATION

To calculate the Initial Margin, the Risk Engine uses the MI which is converted to the Scanning Risk parameter. The Scanning Risk parameter represents the difference between the current market value of a Derivative Instrument (for Exchange Transactions) or of an Acceptable Security (for Fixed Income Transactions) and its most unfavourable projected liquidation value obtained by varying the values of the Underlying Interest according to several scenarios representing adverse changes in normal market conditions. The Scanning Risk is always calculated at the Combined Commodity level.

For contracts belonging to the same Combined Commodity, the Risk Engine adds up the Risk Arrays results of all contracts under the same risk scenario. It should be noted that in the situation where the Risk Engine does not consider other variables, the Scanning Risk is the Initial Margin for the Combined Commodity.

However, in some cases other variables can increase or decrease the Scanning Risk. For example, variables such as the Intra-Commodity (Inter-Month) Spread Charge which tends to increase the Initial Margin and the Inter-Commodity Spread Charge which tends to decrease the Scanning Risk to take advantage of the correlations between the different constituents of the Combined Commodity. Another example is the specific case of short deeply out-of-the-money options wherein the Risk Engine calculates a minimum amount called Short Option Minimum (SOM)

² For Fixed Income Transactions, Futures contracts and Options contracts, the Corporation uses 2 days as an acceptable liquidation period. For OTCI options, the Corporation uses 5 days.

which otherwise attracts little or no Initial Margin. Finally, in the case of OTCI with Physical Settlement/Delivery, the Corporation calculates an additional Liquidity Interval and adds it to the Margin Interval.

It should also be noted that, as described in the following sections, the determination of the Initial Margin is slightly different for Options contracts, Futures contracts and Fixed Income Transactions. The following table summarizes the list of variables used to calculate the Initial Margin by cleared product category:

Input variables to calculate the Initial Margin	Options contracts (including OTCI options)	Futures contracts	Fixed Income Transactions
Scanning Risk	•	•	•
Intra-Commodity (Inter-Month) Spread Charge		•	•
Inter-Commodity Spread Charge		•	•
Short Option Minimum (SOM) amount	•		
Liquidity Interval	• (for OTCI options with Physical Settlement/Delivery only)		

INITIAL MARGIN FOR OPTIONS CONTRACTS

This section describes how the Initial Margin is calculated for the Options contracts, which include the equity options, index options, currency options, exchange-traded-fund options and options on futures.

The Risk Arrays are obtained by varying the Underlying Interest (eight scenarios) and the option's implied volatility (eight scenarios). The term PSR for Options contracts is calculated through the following formula:

$$PSR = \text{Underlying Interest Price} \times MI \times \text{Contract Size}$$

For equity options contracts, the contract size is usually equal to 100.

RISK ARRAYS

Each Risk Array scenario represents losses or gains due to hypothetical market conditions:

- The (underlying) price movement: upward (+) and downward (-) with corresponding scan range fraction (0, 1/3, 2/3, 3/3 or 2)
- The (underlying) volatility movement: upward (+) and downward (-) with corresponding scan range fraction (0 or 1).

Since some scenarios consider large movements on the Underlying Interest price, the whole difference (gain and loss) between the new (simulated) theoretical option price and the actual option price will not be considered. For scenarios 15 and 16, since their probability of occurrence is low, only a fraction of 35% of the difference is considered. The purpose of these two additional extreme scenarios is to reduce the problem of short option positions that are highly out of the money near expiration. If the Underlying Interest price varies sharply, these positions could then be in the money.

A scan range is a fluctuation range of the Underlying Interest price and volatility defined for each Combined Commodity.

The Risk Engine calculates 16 Risk Array scenarios as follows:

Risk Scenarios	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Underlying Price Variation *	0	0	1/3	1/3	-1/3	-1/3	2/3	2/3	-2/3	-2/3	1	1	-1	-1	2	-2
Volatility Variation *	1	-1	1	-1	1	-1	1	-1	1	-1	1	-1	1	-1	0	0
Weight Fraction Considered	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	35%	35%

* Expressed in scan range

Each Risk Array value is calculated as the current contract price less the theoretical (simulated) contract price obtained for the corresponding scenario by using the valuation model. (The Risk Engine uses different valuation models including Black 76, Black-Scholes, Generic Merton, Barone-Adesi-Whaley (BAW) and others).

However, it should be noted that for the intra-day margin processes, CDCC relies on the previous day's closing prices for those Option contracts for which it has open interest.

However, since the Initial Margin driven by Option contracts is relatively small with respect to the total Initial Margin that includes all cleared products, the Corporation does not consider the Volatility Scan Range (VSR) in its risk model. This means that the Corporation does not vary the option implied volatility up and down (+1 and -1) eight times, but varies only the Underlying Interest price in order to simulate the potential losses for each position. Therefore, the Risk Engine produces eight different scenarios as shown in the table below.

Risk Scenarios	1	2	3	4	5	6	7	8
Underlying Price Variation*	1/3	-1/3	2/3	-2/3	1	-1	2	-2
Weight Fraction	100%	100%	100%	100%	100%	100%	35%	35%

Considered

* Expressed in scan range

For Options contracts belonging to the same Combined Commodity, the Risk Engine first calculates the Risk Arrays for each Option contract and for each one of the eight risk scenarios. The Risk Engine then adds up the Risk Arrays results of all Options contracts under the same risk scenario. For example, for two Options contracts O1 and O2 on the Underlying Interest XX, the same scenarios are performed for each Option contract, and then, they are added up. Therefore, the Risk Array value for O1 under the risk scenario 1 is added up to the Risk Array value for O2 under the risk scenario 1, likewise the Risk Array value for O1 under the risk scenario 2 is added up to the Risk Array value for O2 under the risk scenario 2, and so on. The largest total Risk Array value amongst the eight values is the Scanning Risk of this Combined Commodity. The details of this method are described in the section on Risk Arrays.

For a better explanation of the Risk Engine methodology used by the Corporation, here are the steps to calculate the Initial Margin for an Option contract using the Risk Array:

Example 1:

Let's assume that the price of an Option contract is X_0 , its Underlying Interest price is P_0 and its Margin Interval is MI. Using the formula described above, we can calculate the Price Scan Range (PSR) of the option which represents the fluctuation range of the Underlying Interest as follows:

$$PSR = MI \times P_0 \times \text{Contract Size.}$$

Since the contract size of an Option contract is generally 100, the formula becomes:

$$PSR = MI \times P_0 \times 100$$

For the clarity of the table below, please note that the PSR used in the following steps does not include the contract size, i.e. $PSR = MI \times P_0$.

Scenario 1:

Step 1: calculate the Underlying Interest price variation. To accomplish this, the Risk Engine varies the Underlying Interest price by 33% (or 1/3) to the upper range of its MI. If for example the MI is 30%, the Underlying Interest price moves to the upper range by 33% of the 30% which leads to a 10% increase. Therefore, the Underlying Interest price variation is +33% of the PSR.

Step 2: calculate the new (simulated) Underlying Interest price by adding the Underlying Interest price variation calculated in the last step to the original Underlying Interest price.

Step 3: calculate the new (simulated) theoretical option price with Barone-Adesi &

Whaley (1987) model³ using the new (simulated) Underlying Interest price.

Step 4: calculate the option's gain or loss by subtracting the new (simulated) theoretical option price from the original option price.

Step 5: multiply the gain or loss by the considered weight fraction (the last row of the above table) to get the Risk Array amount associated to the scenario 1.

After repeating the above steps for the remaining seven scenarios, the Risk Engine chooses the largest amount of (the weighted) gain or loss as the most unfavourable projected liquidation value (worst case) of the option. This amount is called the Scanning Risk.

Here is the same table as before but with the formulas of each step:

Risk Scenarios	1	2	3	4	5	6	7	8
Underlying Price Variation	$1/3 * PSR$	$-1/3 * PSR$	$2/3 * PSR$	$-2/3 * PSR$	PSR	$-1 * PSR$	$2 * PSR$	$-2 * PSR$
New Underlying Price	$P_1 = P_0 + 1/3 * PSR$	$P_2 = P_0 - 1/3 * PSR$	$P_3 = P_0 + 2/3 * PSR$	$P_4 = P_0 - 2/3 * PSR$	$P_5 = P_0 + PSR$	$P_6 = P_0 - PSR$	$P_7 = P_0 + 2 * PSR$	$P_8 = P_0 - 2 * PSR$
New Option Price (BAW)	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8
Gain / Loss	$P\&L_1 = X_0 - X_1$	$P\&L_2 = X_0 - X_2$	$P\&L_3 = X_0 - X_3$	$P\&L_4 = X_0 - X_4$	$P\&L_5 = X_0 - X_5$	$P\&L_6 = X_0 - X_6$	$P\&L_7 = X_0 - X_7$	$P\&L_8 = X_0 - X_8$
Weight Fraction Considered	100%	100%	100%	100%	100%	100%	35%	35%
Risk Arrays Results	$RA_1 = 100% * P\&L_1$	$RA_2 = 100% * P\&L_2$	$RA_3 = 100% * P\&L_3$	$RA_4 = 100% * P\&L_4$	$RA_5 = 100% * P\&L_5$	$RA_6 = 100% * P\&L_6$	$RA_7 = 35% * P\&L_7$	$RA_8 = 35% * P\&L_8$

³ The Corporation uses BAW (1987) model since most of the listed equity options that are cleared are American style.

The table above shows all details about the Risk Engine method used by the Corporation to calculate the worst potential loss of an Option contract. The last row has the eight Risk Arrays outcomes. The largest amount (positive amount) amongst the eight amounts is the Scanning Risk which will be, in most cases, the Initial Margin of this position.

It is important to note that the above calculations are performed at the Combined Commodity level, implying that when there is more than a single contract with the same Underlying Interest, the Risk Engine method calculates the Risk Arrays for all contracts belonging to the same Combined Commodity and then sums up the Risk Arrays results thus calculated for all contracts for the same scenario. In other words, the RA_1 of the first contract is added up to the RA_1 of the second contract and to the RA_1 of the n^{th} contract that belong to the same Combined Commodity in order to get the Total RA_1 for the same Combined Commodity. Then, the RA_2 of the first contract is added up to the RA_2 of the second contract and to the RA_2 of the n^{th} contract that belong to the same Combined Commodity in order to get the total RA_2 for the Combined Commodity. And so forth for obtaining the total RA_3 , RA_4 , RA_5 , RA_6 , RA_7 and RA_8 . Finally, the Risk Engine considers the largest amount of the eight total Risk Arrays as the Scanning Risk.

Example 2:

Let's assume a portfolio with three different positions: a short position in ten (10) Futures contracts on the S&P/TSX 60 Index, a long position in six (6) call Options contracts on the same index and a short position in three (3) put Options contracts on the same Underlying Interest (the expiry date for these three Options contracts might be the same or different).

In addition, the contract size and the price of the Futures contract are respectively 200 and F_0 and its Margin Interval is MI_F . The price of the call option is X_0 , the price of the put option is Y_0 and the contract size of these two Option contracts is 100, whereas the price of the Underlying Interest S&P/TSX 60 Index is P_0 and its Margin Interval is MI_I . The MI_F and the MI_I values are almost the same but not exactly equal since the first is calculated using the historical volatility of the future's returns, whereas the second is calculated using the historical volatility of the index's returns. However, since the index and the Futures contracts are strongly correlated, both Margin Interval values must be almost similar. Using the calculated Margin Intervals, we can calculate the Price Scan Range (PSR_F) of the Future contract, which represents the fluctuation range of the Futures contract and the index Price Scan Range (PSR_I) which represents the fluctuation range of the underlying index as follows:

$$PSR_F = MI_F \times F_0 \times \text{Contract Size}$$

and,

$$PSR_I = MI_I \times P_0 \times \text{Contract Size}$$

Thus, since this Futures contract size is 200 and the contract size of the index option is 100, the previous formulas become:

$$PSR_F = MI_F \times F_0 \times 200$$

and,

$$PSR_I = MI_I \times P_0 \times 100$$

For the clarity of the table below, please note that the PSR_F and the PSR_I do not include the contract size, i.e. $PSR_F = MI_F \times F_0$ and $PSR_I = MI_I \times P_0$.

This is the Risk Arrays table of this example:

Risk Scenario	1	2	3	4	5	6	7	8
10 Index Futures Contracts								
Futures Price Variation	10 x 200 x 1/3 x PSR_F	-10 x 200 x 1/3 x PSR_F	10 x 200 x 2/3 x PSR_F	-10 x 200 x 2/3 x PSR_F	10 x 200 x PSR_F	-10 x 200 x PSR_F	10 x 200 x 2 x PSR_F	-10 x 200 x 2 x PSR_F
Weight Fraction Considered	100%	100%	100%	100%	100%	100%	35%	35%
Total Weighted Profit and Loss	$P\&L_{F1} = 2000 / 3 \times PSR_F$	$P\&L_{F2} = -2000 / 3 \times PSR_F$	$P\&L_{F3} = 4000 / 3 \times PSR_F$	$P\&L_{F4} = -4000 / 3 \times PSR_F$	$P\&L_{F5} = 2000 \times PSR_F$	$P\&L_{F6} = -2000 \times PSR_F$	$P\&L_{F7} = 1400 \times PSR_F$	$P\&L_{F8} = -1400 \times PSR_F$
6 Index Call Option Contracts								
Index Price Variation	1/3 x PSR_I	-1/3 x PSR_I	2/3 x PSR_I	-2/3 x PSR_I	PSR_I	- PSR_I	2 x PSR_I	-2 x PSR_I
New Index Price	$P_1 = P_0 + 1/3 \times PSR_I$	$P_2 = P_0 - 1/3 \times PSR_I$	$P_3 = P_0 + 2/3 \times PSR_I$	$P_4 = P_0 - 2/3 \times PSR_I$	$P_5 = P_0 + PSR_I$	$P_6 = P_0 - PSR_I$	$P_7 = P_0 + 2 \times PSR_I$	$P_8 = P_0 - 2 \times PSR_I$
New Call Option Price (BAW)	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8
Weight Fraction Considered	100%	100%	100%	100%	100%	100%	35%	35%
Total (6 x 100) Weighted Profit and Loss	$P\&L_{X1} = 600 \times (X_0 - X_1)$	$P\&L_{X2} = 600 \times (X_0 - X_2)$	$P\&L_{X3} = 600 \times (X_0 - X_3)$	$P\&L_{X4} = 600 \times (X_0 - X_4)$	$P\&L_{X5} = 600 \times (X_0 - X_5)$	$P\&L_{X6} = 600 \times (X_0 - X_6)$	$P\&L_{X7} = 210 \times (X_0 - X_7)$	$P\&L_{X8} = 210 \times (X_0 - X_8)$
3 Index Put Option Contracts								
New put Option Price (BAW)	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8
Weight Fraction Considered	100%	100%	100%	100%	100%	100%	35%	35%
Total (-3 x 100) Weighted Profit and Loss	$P\&L_{Y1} = -300 \times (Y_0 - Y_1)$	$P\&L_{Y2} = -300 \times (Y_0 - Y_2)$	$P\&L_{Y3} = -300 \times (Y_0 - Y_3)$	$P\&L_{Y4} = -300 \times (Y_0 - Y_4)$	$P\&L_{Y5} = -300 \times (Y_0 - Y_5)$	$P\&L_{Y6} = -300 \times (Y_0 - Y_6)$	$P\&L_{Y7} = -105 \times (Y_0 - Y_7)$	$P\&L_{Y8} = -105 \times (Y_0 - Y_8)$
Combined Commodity Risk Arrays Results	$RA_1 = P\&L_{F1} + P\&L_{X1} + P\&L_{Y1}$	$RA_2 = P\&L_{F2} + P\&L_{X2} + P\&L_{Y2}$	$RA_3 = P\&L_{F3} + P\&L_{X3} + P\&L_{Y3}$	$RA_4 = P\&L_{F4} + P\&L_{X4} + P\&L_{Y4}$	$RA_5 = P\&L_{F5} + P\&L_{X5} + P\&L_{Y5}$	$RA_6 = P\&L_{F6} + P\&L_{X6} + P\&L_{Y6}$	$RA_7 = P\&L_{F7} + P\&L_{X7} + P\&L_{Y7}$	$RA_8 = P\&L_{F8} + P\&L_{X8} + P\&L_{Y8}$

The largest amount (positive number) of the eight Risk Arrays results is the Scanning Risk which will be the Initial Margin of a portfolio with these three positions.

By convention, Risk Array values are given for a single long position. For a short position (as for the short Put option of the previous example), the calculated profit and loss is multiplied by the negative sign (-1). Losses for long positions are expressed as positive numbers and gains as negative numbers.

In the case of all the eight Risk Arrays values being negative (i.e. all corresponding to a gain) or zero (no risk), the Scanning Risk amount is set to zero.

The number of the Risk Arrays scenario that gives the largest amount (worst case scenario) for the option is called the Active Scenario. If two scenarios have the same figure, the one with the lowest scenario number is the Active Scenario. For example, if scenarios 5 and 7 give the largest and similar results, scenario 5 will be defined as the Active Scenario.

The Risk Engine calculates the Initial Margin for each Combined Commodity, for each member's account and sub-account. Thus, the Initial Margins calculated for each Combined Commodity account and sub-account are then sent to CDCS in order to be aggregated at the Clearing Member level.

In the event of a sharp variation of the Underlying Interest price, short option positions can lead to significant losses. Therefore, the Risk Engine calculates a minimum amount called Short Option Minimum (SOM)⁴ for short positions in each Combined Commodity. This amount will be called if it is higher than the result of the Risk Arrays.

Risk Arrays values are denominated in the same currency as the specific contract.

The Corporation's Risk Arrays file is published every day on the Chicago Mercantile Exchange (CME) website.

OTCI TRANSACTIONS FOR WHICH THE UNDERLYING INTEREST IS A SECURITY

The Initial Margin calculation process for OTCI Transactions for which the Underlying Interest is an Acceptable Security is the same as for listed options, except that the Corporation uses a theoretical price calculated using an in-house program, instead of the contractual option price.

Theoretical Price Calculation

The Corporation uses the Barone-Adesi and Whaley (BAW) model to evaluate the Options that have an American style and the Black and Scholes (BS) model to evaluate the Options that have a European style. In order to evaluate the Option price, we need to determine the implied volatility to be used. For this, two different methodologies are used depending whether the Option is an Exchange traded Option.

If the Option contract is an Exchange traded Option, the Corporation uses the Option's data (the entire Option series for one expiry month) available at the Exchange and builds a Smile Volatility Curve using a Cubic Spline function. After building the Smile Curve, the Corporation determines the implied volatility that corresponds exactly to the strike price of the Option to be assessed. If the expiry date of the Option does not correspond to the ones of the listed series, the Corporation builds two Smile Volatility Curves, one using the Option series with an expiry date that is right after the one of the assessed Option and one using the series of Options with an expiry date that is right before the one of the assessed Option to be evaluated.

⁴ At the Corporation, the Short Option Minimum (SOM) is equal to 25% of the Price Scan Range.

Then, the volatility that corresponds to the strike price of the Option to be evaluated is determined on each curve. Finally, a linear interpolation is done to determine the volatility that corresponds to the strike and to the expiry date of the Option to be evaluated. However, if the expiry date of the Option to be evaluated is before (after) the first (last) expiry date of the listed Options series, the Corporation uses the volatilities of the Smile Volatility Curve of the first (last) expiry date of the listed Option series.

If the Option is not listed and no data is available for it, the Corporation uses the yearly historical volatility of the Option's Underlying Interest price as a proxy for the implied volatility.

Liquidity Interval

To calculate the Margin Interval for OTCI transactions for which the Underlying Interest is an Acceptable Security, the Corporation may apply a different number of liquidation days. In addition, for OTCI with Physical Settlement/Delivery, the Corporation calculates an additional Liquidity Interval and adds it to the Margin Interval.

The assumptions under which the Liquidity Interval is calculated are similar to the assumptions the Corporation uses to calculate the Margin Interval, i.e., the confidence interval over 99% is obtained by using 3 standard deviations (based on the normal distribution's assumptions). The Liquidity Interval is calculated based on the historical bid-ask price spread of the Underlying Interest according to the same formula for Margin Interval.

UNSETTLED ITEMS

Options contracts with physical delivery that have been exercised or expired in the money without being settled (i.e. the Underlying Interest is not delivered yet) are considered as Unsettled Items and the Corporation has to manage the settlement risk associated with these products until the whole quantity of the Underlying Interest is completely delivered/settled. For instance, when such Option contract expires in the money, the Underlying Interest is delivered three days after the expiry date consistent with current market settlement conventions. The Corporation has to charge a Margin requirement to cover the Replacement Cost (RC) of the Option contract and its Potential Future Exposure (PFE) as well. The procedure is as follows:

To cover the Replacement Cost of the Option contract, the Corporation requests a Margin requirement equal to the intrinsic value of the Option times the position (quantity of Options). However, when the writer of a put Option has deposited a Put Escrow Receipt to cover the total amount of the strike price in accordance with Section A-708 of the Rules, the Corporation will not require Margin on the relevant put Option. In the same manner, when the writer of a call Option has deposited a Call Underlying Interest Deposit to cover the total quantity of the Underlying Interest deliverable thereunder in accordance with Section A-708 of the Rules, the Corporation will not require Margin on the relevant call Option.

To cover the Potential Future Exposure of the Option contract, the Corporation requests a margin requirement amount to cover any potential Underlying Interest

price movement over two days and within three standard deviations (under the normal distribution's assumption).

INITIAL MARGIN FOR FUTURES CONTRACTS

This section describes how the initial margin is calculated for the Futures contracts, which includes the Index Futures, Interest Rate Futures, Government of Canada Bonds Futures and Shares Futures.

The first part of the example # 2 of the previous section on Risk Arrays shows how the Scanning Risk is calculated. The Scanning Risk represents the most unfavourable projected liquidation value of the futures position. The calculated Scanning Risk is the Initial Margin for a Futures contract. However, since the Futures contract prices are linear with respect to their Underlying Interest prices, the Active Scenario for a Futures contract is always the one with the positive amount between scenario 5 and scenario 6. In other words, the Initial Margin for a Futures contract is always equal to its Price Scan Range (PSR).

However, when the holder of a short position on a Futures contract has deposited a Futures Underlying Interest Deposit to cover the total quantity of the Underlying Interest deliverable thereunder in accordance with Section A-708 of the Rules, the Corporation will not require Margin on the relevant Futures contract.

INTRA-COMMODITY (INTER-MONTH) SPREAD CHARGE

The different Futures contracts belonging to the same Combined Commodity have generally positively correlated returns. For example, a portfolio composed of a long position and a short position of two Futures contracts that have the same Underlying Interest but different expiry dates, will be less risky than the sum of the two positions taken individually. Margins on correlated positions address this fact.

The Risk Engine automatically matches the long positions on futures maturing in one month with the short positions on futures maturing in another month. The resulting Margin Requirement on these two Futures contracts belonging to the same Combined Commodity, assumes a perfect correlation between the two Futures contracts. Thus the gain of one position is offsetted by the loss of the other position. However, the Futures contracts prices with different maturity months are not perfectly correlated. Gains on a Futures contracts with a certain expiry month should not totally offset losses on a Futures contracts whose expiry month is different. To fix this issue, the Risk Engine allows the user to calculate and to apply a margin charge relative to the Inter-Month spread risk, in order to cover the risk of these two positions. This margin is called Inter-Month Spread Charge or Intra-Commodity Spread Charge (because it is calculated within the Combined Commodity).

Intra-commodity (Inter-month) Spread Charge on correlated futures positions are calculated by the Corporation's risk department and updated regularly.

For the Futures contracts, the Intra-Commodity Spread Charge (ICSC) which is an additional dollar amount charge applied to each combination of two different Futures contracts, is determined as follows:

$$ICSC = 3 \times \sqrt{n} \times \text{Max}[\sigma_{20 \text{ days}}, \sigma_{90 \text{ days}}, \sigma_{260 \text{ days}}]$$

Where 'n' is the number of liquidation days (see footnote 2), 'σ' is the standard deviation of the Futures combination's daily profit and loss (P&L) over 20, 90 and 260 days, and 3 is equivalent to 99.87% under the normal distribution's assumption.

INTER-COMMODITY SPREAD CHARGE

Similarly, the Corporation considers the correlation that exists between different classes of Futures contracts when calculating the Initial Margin. For example, different interest rate Futures contracts are likely to react to the same market indicators, but at different degrees. For instance, a portfolio composed of a long position and a short position on two different interest rate Futures contracts will be likely less risky than the sum of the two positions taken individually. The Corporation will grant a margin relief according to the historical correlation of the returns of the two Futures contracts.

When calculating the Initial Margin on a portfolio with several long and short futures positions, the Corporation matches the positions in accordance with predefined steps. For example, if the first matching step consists of matching long or short positions on the front month Futures contracts with long or short positions on the second front month Futures contract, the positions of both Futures contracts might not be equal. In this case, the Corporation determines, using the hedge ratio concept the exact position (number of contracts) of a Future contract that can be offset by a position on the other Future contract. Any position that has not been matched will be available for the second matching step. This is the same spread priority process also defined for Cash Buy or Sell Trades and Repurchase Transactions.

The Corporation regularly performs an analysis to determine the margin reductions that are applied for all Futures contracts combinations.

The Corporation also considers the positive (negative) correlation that exists between the different interest rate Futures contracts and the Fixed Income Transactions, and provides a margin benefit for a combination of any Futures contracts with the opposite (same) Fixed Income Transactions.

Spread Priority

To determine the appropriate margin reduction for each combination of two Futures contracts, the Corporation performs the following steps:

- 1) Use the yearly historical data of the different Futures contracts and calculate the correlation matrix.
- 2) For the priority allowance, start by considering the closest diagonal to the leading one (the diagonal with the 100% correlations that represent the Futures contracts correlations with themselves). This closest diagonal usually contains the highest correlations because of the proximity of the maturities. Then, consider the second closest diagonal, then the third and so on until the last diagonal that has one correlation number.

- 3) Amongst the numbers of each diagonal, consider the highest number first, then the second highest number, then the third and so on until the last number. This methodology's goal is to maximise the margin reduction applied to the Clearing Members. Discounts are applied to all the matrix correlation numbers before the priority process. The discounts are meant to cover the potential daily variation of the correlations.
- 4) If there is one or some ties between the discounted numbers within the same diagonal, consider the one with the lowest maturity first, then the second, then the third and so on until the last one.

Different Futures contracts that do not have the same contract size nor the same volatility yield would not have a margin reduction applied to their respective entire positions. By consequent, a hedge ratio is used to determine how much position of one contract in any combination can be matched with the other Future contract of the same combination. The remaining position (or quantity of Future contracts) of any contract of this first combination will be matched with another position to form another combination according the above priority process. At the end of this process, there might be a single outright position that is left to be margined individually.

The Corporation allows a margin reduction for two positively correlated Futures contracts with different directions and for two negatively correlated Futures contracts with same directions.

When the spread priority process is performed, the Corporation considers the combinations between interest rate Futures contracts first (Intra-Commodity Spread Charge). Any remaining (outright) positions in these Futures contracts positions will be considered for Inter-Commodity Spread Charge with Fixed Income Transactions.

INITIAL MARGIN FOR FIXED INCOME TRANSACTIONS

At the Corporation, a Fixed Income Transaction can be either a Repurchase Transaction or a Cash Buy or Sell Trade. A Cash Buy or Sell Trade is the sale of a security from one party to another. Depending on its maturity, the Fixed Income Security can be delivered one, two or three days after the Fixed Income Transaction is completed. Between the Fixed Income Transaction novation date and the delivery date, the Corporation has to cover the counterparty risk.

A Repurchase Transaction is a transaction whereby the seller (the Repo Party) agrees to sell a security to a buyer (the Reverse Repo Party) on a given date (the purchase date) and simultaneously agrees to buy the same security back from the Reverse Repo Party at a later date (the repurchase date) at a fixed price (the repurchase price). Thus, a Repo is equivalent to a cash transaction combined with a forward contract. The cash transaction results in a transfer of money from the buyer to the seller in exchange for a legal transfer of the security from the seller to the buyer, while the forward contract ensures repayment by the seller to the buyer and return of the securities from the buyer to the seller. The difference between the repurchase price and the purchase price is the Price Differential calculated with the agreed Repo Rate, while the settlement date of the forward contract (i.e. the repurchase date) is the maturity date of the transaction.

In such Repurchase Transaction, there are two sources of risk that the Corporation needs to consider and cover. The potential Purchased Security's price fluctuation and the Floating Price Rate fluctuation over the life of the Repurchase Transaction. However, in a Cash Buy or Sell Trade, there is only one source of risk that the Corporation needs to consider and cover, namely, the Purchased Security's price fluctuation.

SECURITY PRICE RISK

The price of the Purchased Security changes continuously during the life of a Repurchase Transaction. On one hand, if the price decreases and the Repo Party defaults, the Corporation, as a central counterparty, incurs market risk for the price difference. The position may be transferred to any Fixed Income Clearing Member who agrees to buy the security at the expiry date with the new market conditions (new security's market price and interest rate). In this case, the Corporation has to cover the potential decrease in the security's value (negative variation for the seller) that could arise during the next specific period. On the other hand, if the security's price increases and the Reverse Repo Party defaults, the Corporation, as a central counterparty, incurs market risk for the price difference. The position may be transferred to any Fixed Income Clearing Member who agrees to sell the same security at the expiry date with the new market conditions (new security's market price and interest rate). In that case, the Corporation has to cover the potential increase in the security's value (negative variation for the buyer) that could arise during the next specific period.

The methodology to calculate the Initial Margin for Fixed Income Transactions is slightly different from the Options contracts and Futures contracts. Indeed, the different types of securities that are accepted by the Corporation for clearing of a Repurchase Transaction are separated in different Buckets depending on their remaining time to maturities and issuers. In addition, in its risk model, the Corporation assumes that all securities belonging to the same Bucket have the same yield volatility expressed in terms of Margin Interval (same concept of Margin Interval as described before) which is calculated using the yield-to-maturity (YTM) of the on-the-run security of the Bucket. The Margin Interval is calculated as follows:

$$MI = 3 \times \sqrt{n} \times \text{Max}[\sigma_{20 \text{ days}}, \sigma_{90 \text{ days}}, \sigma_{260 \text{ days}}]$$

Where n is the number of liquidation days, σ is the standard deviation of the YTM's daily variation of the on-the-run security over the reference period and 3 is to allow a confidence level over 99% under the normal distribution's assumption.

It's important to note that for some particular Buckets, there may not be any on-the-run security. In this particular situation, a linear interpolation between the MIs of the two closest Buckets is performed to determine the MI of the particular bucket.

Each Bucket is considered as a Combined Commodity. Since the bond's convexity effect is very small with respect to its duration, the Initial Margin is calculated for a physical cash trade exactly the same way as for Futures contracts. The first part of the example # 2 of the section on Risk Arrays shows how the Scanning Risk is

calculated for a Futures contract. As for a Futures contract, the Initial Margin for a physical security can also be obtained straightforwardly by calculating its Price Scan Range (PSR).

Therefore, the Initial Margin amount related to the security's price of a Repurchase Transaction on one security belonging to a Bucket is calculated as follows:

$$\text{Initial Margin 1} = \text{Security's Price} \times MI \times D \times \text{Contract Size}$$

Where D is the duration of the security and the contract size is the transaction's Purchase Price divided by 100. However, for all securities that belong to the 3-month, 6-month and 1-year buckets, CDCC uses a fixed duration set to 0.25, 0.5 and 1 respectively.

Thus, all Repo related Fixed Income Securities belonging to the same Bucket have the same Margin Interval but each specific Repo related security of the same Bucket has a different Initial Margin driven by its own price and its own duration.

In the above formula of the Price Scan Range, only the first part of the Initial Margin of a Repurchase Transaction is calculated, namely, the Initial Margin 1. As mentioned above, there are two sources of risk for a Repurchase Transaction. This is the Initial Margin of the first source of risk, the security's price. In the next section, the second part of the Initial Margin of a Repurchase Transaction which covers the second source of risk, the Floating Price Rate, is described. Finally, both Initial Margins are added up to get the total Initial Margin of a Repurchase Transaction. However, the Initial Margin 1 corresponds to the total Initial Margin for a Cash Buy or Sell Trade.

INTEREST RATE RISK (REPURCHASE TRANSACTIONS)

The Floating Price Rate changes continuously during the life of a Repurchase Transaction. On one hand, if the Floating Price Rate decreases and the Repo Party defaults, the Corporation, as a central counterparty, incurs market risk. The position may be transferred to any Fixed Income Clearing Member who agrees to buy the Fixed Income Security at the expiry date with the new market conditions. In this case, the Corporation has to cover the potential decrease in the Floating Price Rate (negative variation for the seller) that could arise during the next specific period. On the other hand, if the Floating Price Rate increases and the Reverse Repo Party defaults, the Corporation, as a central counterparty, incurs market risk. The position may be transferred to any Fixed Income Clearing Member who agrees to sell the same Fixed Income Security at the expiry date with the new market conditions. In that case, the Corporation has to cover the potential increase in the Floating Price Rate (negative variation for the buyer) that could arise during the next specific period.

In order to properly quantify the risk related to the Floating Price Rate using the Risk Engine, it is necessary to model the Floating Price Rate into a Virtual Futures Contract (VFC) with a price equal to: VFC's price = 100 – Floating Price Rate. For an overnight Repurchase Transaction the Initial Margin is straightforwardly calculated by sending to the Risk Engine the determined VFC. However, in order to calculate the VFC's price for longer term Repurchase Transactions, the Corporation determines

the appropriate interest rate using the overnight index swap (OIS) term structure.

The portion of the Initial Margin that covers the Floating Price Rate related risk is then added to the portion of Initial Margin that covers the security price related risk to get the total Initial Margin for a Repurchase Transaction.

It's important to note that the portion of Initial Margin that covers the Floating Price Rate related risk is very small with respect to the portion of Initial Margin that covers the security price related risk.

INTRA-COMMODITY (INTER-MONTH) SPREAD CHARGE

For Fixed Income Transactions, a portfolio composed of a short position and a long position on two different Acceptable Securities belonging to the same Bucket, will generate a lower margin requirement than if they were margined independently without considering their correlation.

The Risk Engine automatically matches the Seller and the Buyer of two different securities belonging to the same Bucket. The resulted Margin requirement on these two Repurchase Transactions assumes a perfect correlation between the two Fixed Income Securities, thus the gain of one Fixed Income Security is offsetted by the loss of the other Fixed Income Security. However, the Acceptable Securities' prices are not perfectly correlated. Gains on one position should not totally offset losses of the other Fixed Income Security. To fix this issue, the Risk Engine allows the user to calculate and to apply a margin charge relative to the Inter-Month spread risk in order to cover the risk of these two Fixed Income Transactions. This margin is called the Inter-Month Spread Charge or Intra-Commodity Spread Charge (because it is calculated within the Combined Commodity).

The Intra-Commodity (Inter-Month) Spread Charge on correlated Acceptable Securities of each Bucket is calculated by the Corporation's risk department and updated regularly.

For Fixed Income Transactions, the Intra-Commodity Spread Charge (ICSC) which is an additional dollar amount charge applied to each combination of two different transactions on two different securities that belong to a same Bucket, is determined as follows:

$$ICSC = 3 \times \sqrt{n} \times \text{Max}[\sigma_{20 \text{ days}}, \sigma_{90 \text{ days}}, \sigma_{260 \text{ days}}]$$

Where 'n' is the number of liquidation days (see footnote 2), 'σ' is the standard deviation of the securities combination's daily profit and loss (P&L) over 20, 90 and 260 days, and 3 is equivalent to 99.87% under the normal distribution's assumption.

INTER-COMMODITY SPREAD CHARGE

The Fixed Income Securities belonging to two different Buckets generally have a significant correlation. Inter-Commodity spread charge is a margin amount generated for opposite or similar Fixed Income Transactions in two different Acceptable Securities belonging to two different Buckets.

Without any margin relief, the Initial Margin for opposite or similar positions on two different Acceptable Securities belonging to different Buckets would be the sum of both Initial Margins. However, two different Fixed Income Transactions in different Acceptable Securities belonging to two different Buckets can benefit from a reduction in their Initial Margins because of the consideration given to their correlation. The formula to get the portfolio's Initial Margin is:

$$\text{Total Initial Margin} = (\text{Initial Margin}_{\text{Position 1}} \times \text{Hedge Ratio}_{\text{Position 1}} + \text{Initial Margin}_{\text{Position 2}} \times \text{Hedge Ratio}_{\text{Position 2}}) \times (1 - \text{Margin Relief})$$

The margin relief is a percentage determined using the correlation matrix between the different on-the-run Fixed Income Securities of each Bucket.

The Inter-Commodity margin relief percentages between the different Buckets are calculated by the Corporation's risk department and updated regularly.

The Corporation also considers the positive (negative) correlation that exists between the different Fixed Income Transactions and the interest rate Futures contracts. The Corporation provides a margin reduction for a combination of any Fixed Income Transactions with opposite or similar Futures contracts positions.

Spread Priority

To determine the appropriate margin reduction for each combination of two Fixed Income Securities, the Corporation performs the following steps:

- 1) Use the yearly historical data of the different Fixed Income Securities and calculate the correlation matrix.
- 2) For the priority allowance, start by considering the closest diagonal to the leading one (the diagonal with the 100% correlations that represents the Fixed Income Securities correlations with themselves). The first diagonal usually contains the highest correlations because of the nearness of the maturities. Then, consider the second closest diagonal, then the third, and so on, until the last diagonal that has only one correlation number.
- 3) Amongst the numbers of each diagonal, consider the highest number first, then the second highest number, then the third and so on until the last number. This methodology's goal is to maximise the margin reduction applied to the Clearing Members. Discounts are applied to all the matrix correlation numbers before the priority process. The discounts are meant to cover the potential daily variation of the correlations.
- 4) If there is one or some ties between the discounted numbers within the same diagonal, consider the one with the lowest maturity first, then the second, then the third and so on until the last one.

Different Fixed Income Securities that do not have the same price nor the same

duration would not have a margin reduction applied to their respective entire positions. By consequent, a hedge ratio is used to determine how much position of one contract in any combination can be matched with the other Fixed Income Transaction of the same combination. The remaining position (or quantity of Fixed Income Transaction) of any contract of this first combination will be matched with another position to form another combination, according to the above priority process. At the end of this process, there might be a single outright position that is left to be margined individually.

The Corporation allows a margin reduction for two positively correlated Fixed Income Transactions with different directions and for two negatively correlated Fixed Income Transactions with same directions.

When the spread priority process is performed, the Corporation considers the combinations between Fixed Income Transactions first. Any remaining (outright) positions in these Fixed Income Transactions positions will be considered for Inter-Commodity spread charge with the Futures contracts.

For a better understanding of this process, please refer to the spread priority example of the section Fixed Income Transactions, and to the third scenario of the *IM_repo_3_scenarios.xls* file available at the Corporation website.

Spread Priority Example

Here is an example of the matrix correlation demonstrating the application of the spread priority process:

Correlation	3 months	6 months	1 year	2 year	3 year	5 year	7 year	10 year	15 year	20 year	30 year
3 months	100%	92%	88%	68%	11%	-1%	2%	4%	24%	24%	14%
6 months		100%	94%	81%	54%	42%	5%	7%	26%	26%	17%
1 year			100%	82%	68%	46%	20%	22%	39%	39%	29%
2 year				100%	76%	59%	68%	69%	78%	75%	69%
3 year					100%	82%	87%	86%	93%	90%	89%
5 year						100%	91%	55%	57%	89%	88%
7 year							100%	80%	91%	70%	94%
10 year								100%	82%	95%	43%
15 year									100%	69%	97%
20 year										100%	67%
30 year											100%

The numbers in the first diagonal (blue) on the right of the 100% diagonal should be considered first, then the numbers in the second diagonal (green), then the numbers in the third diagonal (yellow), and so on, until the last white diagonal which contains one single number (the number of this cell is 14%).

Amongst the numbers in the first diagonal in blue, the combination with the highest number is treated first. In this case, it is a combination of 1-year Fixed Income Security with 6-month Fixed Income Security which has the highest number (94%). The combination with a 92% correlation is considered, followed by the combination

with a 91% correlation, and so on.

Out of the 10 numbers of this diagonal, there are three correlations with the same percentage of 82%. By subsequent, the correlation with a 1-year Fixed Income Security and a 2-year Fixed Income Security has to be considered first, then the correlation with a 3-year Fixed Income Security and a 5-year Fixed Income Security has to be considered thereafter and finally the correlation with a 10-year Fixed Income Security and a 15-year Fixed Income Security has to be considered.

VARIATION MARGIN

OPTIONS CONTRACTS

For Options contracts, the Variation Margin is collateralized daily.

FUTURES CONTRACTS

For Futures contracts, the Variation Margin is financially settled every day based on the settlement price as determined by the relevant marketplace.

FIXED INCOME TRANSACTIONS

MTM REPO RATE VALUATION

The Mark-To-Market (MTM) process essentially transfers any losses due to market fluctuations in the Floating Price Rate which is determined from the overnight index swap curve from one party to the Repurchase Transaction to the other. Each open position will be Marked-to-Market on a daily basis with the resulting cash movements settling during the morning settlement cycle. This amount is called the MTM Repo Rate Payment.

The MTM process works as follows. On one hand, if the Floating Price Rate decreases during the life of the Repurchase Transaction, the Repo Party must pay the difference between the original Repo Rate and the new Floating Price Rate. On the other hand, if the Floating Price Rate increases, the Reverse Repo Party must pay the difference between the new Floating Price Rate and the original Repo Rate.

In addition, when one party to the Repurchase Transaction pays the MTM, it is necessary to compensate that Clearing Member for the opportunity cost of funds (OCF) which was forfeited.

The MTM process is important since it ensures that, in the event of default, the Corporation will be able to replace the defaulting Clearing Member's Repurchase Transaction without incurring any additional losses beyond the current valuation.

Since the MTM and OCF are related to the Repo Rate and the Floating Price Rate, these two components are applied only to Repurchase Transactions and not to Cash Buy or Sell Trades.

Here is an example of the MTM and the OCF calculations:

$$MtM_t = A \times (OIS\ rate_t - original\ Repo\ Rate) \times t/365 - MtM_{t-n}$$

and

$$OCF_t = MtM_{t-n} \times Corra_{t-n} \times n/365$$

where

A = Purchase Price

t = Remaining term (in days)

OIS rate_t = Interest rate derived from the OIS curve with a remaining term of t days

Original Repo Rate = the contractual Repo Rate

n = Number of days between t and the last business day. It's usually equal to 1 except when there is a week-end or a Holiday.

MTM PRICE VALUATION

At each margin run process (two intra-days and one end of day process), the Clearing Engine compares the Market Value of the Purchased Security to the Repurchase Price. The Corporation is exposed to the Reverse Repo Party when the Market Value of the Purchased Security exceeds the Repurchase Price, and inversely, the Corporation is exposed to the Repo Party when the Repurchase Price exceeds the Market Value of the Purchased Security; therefore, this difference needs to be considered in the event of a Clearing Member default.

The MTM price valuation amount is the difference between the Market Value of the Purchased Security and the Repurchase Price. This amount is collateralized and should be credited to the Repo Party's Margin Fund and debited to the Reverse Repo Party's Margin Fund when the Market Value of the Purchased Security exceeds the Repurchase Price, and the other way around when the Repurchase Price exceeds the Market Value of the Purchased Security. It should be noted that MTM price valuation is also applicable for Cash Buy or Sales Trades. In this situation, the MTM price valuation amount is the difference between the Market Value of the Purchased Security and the Purchase Price.

ACCOUNT STRUCTURE

The Corporation uses three types of accounts for Margin calculation purposes and positions management: Firm Account, Multi-Purpose Account and Client Account. All the account types are treated on a net account basis for Futures contracts, OTCI and Fixed Income Transactions. However, Options contracts are treated differently depending on the account type they are held in. If they are held in a Firm Account or a Multi-Purpose Account, they are treated on a net account basis, whereas if they are held in a Client Account, they are treated on a gross account basis, which means that only short Options contracts are considered when computing the Initial Margin.

Gross accounts allow calculation of Initial Margin for different clients that clear through one Clearing Member. Since each client has its own risk profile, the Initial Margin must be computed separately for each client and must not allow offsets

between positions that belong to different clients. Subsequently, only Short Positions in Options contracts are considered when calculating the Initial Margins for the Client Account.

Net accounts allow calculation of Initial Margin for the Clearing Member's own positions (Firm Account), for a Market Maker positions (Market Maker Account) or for the positions of a particular single Client (Netted Client Account). In this case, the Initial Margin must consider the possible offsets between all positions. Therefore, all positions held in one Firm Account or one Multi-Purpose Account are used to calculate the Initial Margin for this account.

The Initial Margins calculated for each account are then aggregated at the Clearing Member level to get the Initial Margin by Clearing Member.

In order to cover the Initial Margin described above, Clearing Members shall deposit an acceptable form of Deposits in accordance with Section A-709 of the Rules.

DIFFERENCE FUND

As defined in Section 8.2 of the Operations Manual, the Difference Fund is Margin Deposits held by the Corporation as discretionary margin, such as: (1) Unsettled Items Margin, (2) Daily Capital Margin Monitoring, (3) Advance calls for settlement of losses, (4) OTCI Additional Margin, (5) Banking Holidays Additional Margin, and (6) Intra-Day Margin. The Corporation accepts Deposits to the Difference Fund in the same form and proportion as for the Margin Fund, as set forth in Section A-709 of the Rules.

Despite the fact that the Difference Fund is used to cover all the above elements, the sub-section regarding the Daily Capital Margin Monitoring intends to capture the credit risk. Consequently, this sub-section is described in details thereunder.

Daily Capital Margin Monitoring:

The Corporation measures the credit exposure to its Clearing Members on a daily basis through the Daily Capital Margin Monitoring Calls (the Difference Fund). The capital level is derived from regulatory reports received on a monthly basis in a timely manner (and on a quarterly basis if it is a Bank Clearing Member).

As prescribed in Section A-710 of the Rules, the Corporation may call for a contribution in the Difference Fund from Members that are undercapitalized in relation to their respective Initial Margin. The Corporation compares the Clearing Member's capital amount to the Initial Margin on a daily basis and requires, if applicable, that the Clearing Member makes up any difference in the form of acceptable Deposits. Each Clearing Member's capital is analyzed and updated on a monthly basis.

In order to determine the contribution to the Difference Fund of Clearing Members, the Corporation uses the Net Allowable Assets (NAA). The Net Allowable Asset is a more restrictive type of capital, since it is the net result of the financial statement capital less the non allowable assets. Non allowable assets are composed of less liquid assets like capitalized leases, Investments in and Advances to Subsidiaries, etc. For Bank Clearing Members, the Corporation uses the Net Tier 1 capital.

The Corporation has access to the Clearing Member's financial statements from the CIPF (Canadian Investor Protection Fund), and the OSFI (Office of the Superintendent of Financial Institutions Canada) for Bank Clearing Members.

In addition to the monthly update of capital numbers, the Corporation performs a qualitative analysis of the financial statements of each member. The Corporation has defined specific thresholds to analyze the profitability, the margin required, the liquidity and the capital level. The Corporation could ask Clearing Members for more clarifications, if necessary.

Indeed, Investment Industry Regulatory Organization of Canada (IIROC) evaluates the financial condition of its Members. If an IIROC Member, who is also a Clearing Member, fails the tests designed to detect the risk of insolvency, the Corporation will be notified by IIROC. The Clearing Member itself shall also advise the Corporation immediately if it enters in an early warning level situation. IIROC may issue two types of warning, early warning level 1 or 2. This is function of the severity of the financial deficiency. The Corporation will be informed by IIROC and will closely monitor the situation. IIROC may impose sanctions or restrictions against the Member. The Corporation will judge if it necessary to take any additional actions and will report the situation to the Risk Management and Advisory Committee (RMAC).

CLEARING FUND

The Clearing Fund deposits are set out in Rule A-6.

These provisions aim to cover extreme but plausible market events. The Clearing Fund is a reserve fund put in place to respond to the deficit that may occur when the Margin Fund and the Difference Fund of a defaulting Clearing Member no longer cover his market exposure. The Clearing Fund is an obligation shared by all the Clearing Members and this Fund is structured to mitigate the Uncovered Residual Risk ("URR"). The URR accounts for the fact that extreme market conditions could generate a major loss for certain Clearing Members, causing the potential default of a Clearing Member.

As it is indicated in Section A-603 of the Rules, the required Clearing Fund contribution of each Clearing Member is composed of Base Deposits plus a Variable Deposit specific to each Clearing Member. Clearing Fund Base Deposits and Variable Deposit could be modified by the Corporation. Clearing Members will be notified of any change pursuant to Section A-604 of the Rules. In accordance with Section A-611 of the Rules, whenever a Clearing Member ceases to be a Clearing Member of the Corporation, the balance of the Clearing Fund owed to the former Clearing Member will be paid to that former Clearing Member, thirty days after all outstanding items have been fulfilled from the Clearing Member's accounts, with the Corporation.

MEMBER CONTRIBUTION

For the purposes of application of Rule A-6, the Corporation issues an amount of Deposit to each Clearing Member on a monthly re-evaluation basis of the following

elements:

- Each Clearing Member's contribution is based on his Uncovered Residual Risk (URR), which represents the difference between his stress margin and base margin, as shown in the below formula. The stress margin is calculated using a stressed Margin Interval which is equal to the Margin Interval times a stress factor. The two calculations are based on open positions on the preceding day of the calculations.

$$\text{URR} = \text{Stress Margin} - \text{Base Margin}$$

- The last sixty business days are used to determine the average URR of each Clearing Member.

$$\mu_{URR}^{60} = \frac{\sum_{t=1}^{60} URR_t^i}{60}$$

- The Corporation determines the size of the Clearing Fund (Ω) based on the maximum average URR amongst all Clearing Members.

$$\Omega = \text{Max}_{i=1}^n (\mu_{URR}^{60})$$

- Each Clearing Member's contribution (C) to the Clearing Fund is determined according to the weight of his respective average URR, with respect to the sum of all the average URRs of all Clearing Members.

$$C^i = \Omega \cdot \frac{\mu_{URR}^{60}}{\sum_{i=1}^n \mu_{URR}^{60}}$$

STRESS SCENARIOS

The Corporation uses four stress scenarios to evaluate the biggest loss amongst all Clearing Members. This loss is utilized to determine the size of the Clearing Fund. A shortfall is equal to the difference between the loss incurred under a stress scenario, reduced of the Margin Fund and the Difference Fund, both belonging to the Clearing Member. By consequence, the size of the Clearing Fund should be at least equal to the greatest shortfall. The stress scenarios use end-of-month positions.

The four stress scenarios currently used by the Corporation are:

- Black Monday (1987)
- Financial Crisis (2008)
- Russian Default (1998)
- Bond Market Crash (1994)

The Corporation regularly assesses whether it is appropriate to add other stress scenarios to the existing scenarios.

The Corporation mostly stresses Futures contracts and Fixed Income Transactions that are considered to be the highest Initial Margin drivers, by historical stressful events. Note that for Fixed Income Transactions, the variations are based on the most representative Fixed Income Securities of each Bucket⁵. Here are the historical percentage variations applied:

Scenario 1 (Black Monday)			
	1987-10-16	1987-10-19	Variation
SXF TM – S&P/TSX 60 Index Standard Futures ⁶	174.75	154.63	-11.51%
BAX TM – Three-Month Canadian Bankers' Acceptance Futures ⁷	90.81	90.69	-0.14%
CGB TM – Ten-Year Government of Canada Bond Futures ⁸	74.40	76.93	3.40%
Fixed Income Security Buckets			
0-3 months GoC yields			0.1857%
3-6 months GoC yields			0.4864%
6-12 months GoC yields			1.0164%
1-2 years GoC yields			1.1663%
2-3 years GoC yields			1.4660%
3-5 years GoC yields			1.7657%
5-7 years GoC yields			2.0654%
7-10 years GoC yields			2.3651%
10-15 years GoC yields			2.1761%
15-20 years GoC yields			2.1760%
20-30 years GoC yields			2.4687%
Scenario 2 (Financial Crisis 2008)			
	2008-10-17	2008-10-20	Variation
SXF TM – S&P/TSX 60 Index Standard	568.5	622.7	9.53%

⁵ Selected Government of Canada (GoC) Benchmark Bond yields

⁶ The SXF contract has started trading in 1999. Thus, these prices represent the Futures Contract and not the S&P/TSX 60 Index, which is the Underlying Interest of the contract.

⁷ The BAX contract was introduced in April 1988. Consequently, the historical price is obtained by using the 3 month US LIBOR interest rates.

⁸ The CGB contract was introduced in September 1989. Consequently, the theoretical price is obtained by calculating a 10-year bond, 6% coupon rate actualized with a 10-year Canadian Government rate extracted from an on-the-run Canadian Government Bond.

Futures			
BAX TM – Three-Month Canadian Bankers' Acceptance Futures	97.63	97.75	0.12%
CGB TM – Ten-Year Government of Canada Bond Futures	117.16	117.14	-0.02%
Fixed Income Security Buckets			
0-3 months GoC yields			-0.0056%
3-6 months GoC yields			0.0354%
6-12 months GoC yields			0.0719%
1-2 years GoC yields			0.1318%
2-3 years GoC yields			0.1635%
3-5 years GoC yields			0.1883%
5-7 years GoC yields			0.1247%
7-10 years GoC yields			0.0528%
10-15 years GoC yields			0.1163%
15-20 years GoC yields			0.1718%
20-30 years GoC yields			0.1491%
Scenario 3 (Russian Default)			
	1998-08-26	1998-08-27	Variation
SXF TM – S&P/TSX 60 Index Standard Futures	356.54	333.25	6.53%
BAX TM – Three-Month Canadian Bankers' Acceptance Futures	94.56	93.77	-0.84%
CGB TM – Ten-Year Government of Canada Bond Futures	122.15	121.3	-0.70%
Fixed Income Security Buckets			
0-3 months GoC yields			-0.2069%
3-6 months GoC yields			-0.3263%
6-12 months GoC yields			-0.5015%
1-2 years GoC yields			-1.0739%
2-3 years GoC yields			-1.0429%
3-5 years GoC yields			-1.3803%
5-7 years GoC yields			-0.8457%
7-10 years GoC yields			-1.4312%
10-15 years GoC yields			-1.5248%

15-20 years GoC yields			-1.2586%
20-30 years GoC yields			-1.3089%
Scenario 4 (Bond Market Crash)			
	1994-04-01	1994-04-04	Variation
SXF™ – S&P/TSX 60 Index Standard Futures	221.09	215.97	-2.32%
BAX™ – Three-Month Canadian Bankers' Acceptance Futures	93.53	92.92	-0.65%
CGB™ – Ten-Year Government of Canada Bond Futures	105.17	102.38	-2.65%
Fixed Income Security Buckets			
0-3 months GoC yields			0.0268%
3-6 months GoC yields			0.1060%
6-12 months GoC yields			0.1814%
1-2 years GoC yields			0.3710%
2-3 years GoC yields			0.4517%
3-5 years GoC yields			0.7702%
5-7 years GoC yields			0.6207%
7-10 years GoC yields			0.8582%
10-15 years GoC yields			1.0067%
15-20 years GoC yields			0.7665%
20-30 years GoC yields			0.5196%

The procedure to value the size of the Clearing Fund and the contributions of each Clearing Member is performed every month. As previously mentioned, the consideration of the results of the different stress scenarios leads the Corporation to select a stress factor⁹. Therefore, the stress factor depends on Clearing Members' positions (risk profile of each Clearing Member) that vary every day, and the Margin Intervals. After selecting the stress factor, the Corporation monitors and controls the level of the Clearing Fund throughout the month.

⁹ The stress factor generally has a value of 1.5, 2, 2.5 or 3. It is generally adjusted by 50% intervals.

FORMS OF COLLATERAL

The forms of collateral that may be deposited with CDCC are prescribed in Section A-608 and Section A-709 of the Rules.

The different forms of collateral are valued by accounting for their potential loss in the event that liquidation is required. Accordingly, the value of the Margin Deposits is discounted in relation to their market value. This discount, commonly called the Haircut, applies to Valued Securities and Government Securities, as prescribed in Section A-709 of the Rules.

For the purposes of application of the provisions of Section A-608 and Section A-709 of the Rules, CDCC proceeds as follows:

CASH

Cash amounts are accepted only in Canadian dollars.

GOVERNMENT SECURITIES

CDCC accepts Acceptable Treasury Bills and other Government of Canada and United States Government bonds, in addition to the bonds of certain Canadian provinces, as Margin Deposits. For each issue accepted in advance, a concentration limit equal to \$250 million or 10% of the total issue outstanding, whichever is less, is applied. The concentration limit is in effect for all Government Securities at the Corporation level. Acceptance of the issues is conditional on the availability of a price from a source that CDCC determines to be acceptable and reliable. The Government Securities accepted as Margin are reviewed by CDCC on a regular basis.

VALUED SECURITIES

CDCC accepts Valued Securities listed on any duly recognized Canadian Exchange against their total Margin requirements. These Securities should respect the criteria set forth in Section A-709 of CDCC's Rules.

CALCULATING THE HAIRCUTS FOR GOVERNMENT SECURITIES

The Haircuts are calculated based on the following methodology and assumptions:

- Valuation of the market, credit, liquidity and foreign exchange risks based on historical daily returns;
- Confidence interval over 99% obtained by using 3 standard deviations, and the assumption that the bond can be liquidated at a reasonable price in N days. (N will be determined according to the type of products and prevailing market conditions);

- Liquidity risk valued according to the bid-ask spread of the issues (if this spread is unavailable, the liquidation window will be expanded and will depend on market conditions); and
- Bonds of the same issuer and comparable maturities.

Once the quantitative analysis is performed, CDCC reserves the right to increase the Haircuts based on qualitative criteria, such as:

- Comparative analysis of CDCC's Haircuts in relation to the Haircuts of the Bank of Canada;
- Comparative analysis of CDCC's Haircuts in relation to the Haircuts of other clearing houses;
- The congruence of the different Haircuts to the credit rating spreads of the different issuers;
- Any other factor considered relevant.

THE HAIRCUTS FOR VALUED SECURITIES

A Haircut of 50% is applied to all Valued Securities pledged against the total Margin required against all accounts combined.

HAIRCUT POLICY

The Haircuts are reviewed at least semi-annually and may be reviewed on an ad hoc basis if any event occurs. The Clearing Members are informed of these reviews by written notice and the Haircuts related to Government Securities are also published on CDCC's website with their effective dates.

MONITORING PROGRAM

The Corporation conducts daily backtesting and stress testing.

BACKTESTING

Backtesting is performed on a daily basis. Backtesting helps the Corporation to assess the robustness of the existing models and measures the actual credit exposures. In order to have an efficient coverage, even at the introduction of new products, the Corporation performs a complete theoretical backtesting to calibrate the liquidation period and the volatility assumption.

The Corporation has put in place appropriate internal procedures if the backtesting results are not sufficient to cover minimum coverage at the product level and at the portfolio level.

If the results of the backtesting fail to reach the desired minimum coverage, the situation is investigated. If necessary, the results are escalated to upper management. At this level, a decision is made to adjust the current risk parameters and/or ultimately to change the risk methodology. As set in Section A-702 of the Rules, the Corporation has the discretion to adjust the Initial Margin. This can be done at the product level by increasing the Margin Interval, or by asking a Clearing Member for additional Initial Margin.

The results are communicated to the Risk Management and Advisory Committee (RMAC) on a regular basis.

STRESS TESTING

The stress testing is also conducted on a daily basis. The Corporation uses different stress scenarios, each of them designed to test different key parameters. The results of the stress tests help the Corporation to size the Clearing Fund. The Clearing Fund measures the capacity of the Corporation to address extreme, but plausible market conditions. Another goal of the stress test is to better understand the different relationships among the different positions of the Clearing Members. The various results may contribute to enhance the risk methodology of the Corporation. If it is concluded that these changes in the market are permanent, the Corporation may integrate the new dynamics in the Initial Margin.

The scenarios are historical and theoretical. The historical stress scenarios aim to simulate the biggest historical events that would affect Clearing Members. The historical stress scenarios are used to determine the size of the Clearing Fund. Moreover, in the case of the stress testing monitoring program, the stress scenarios help the Corporation to have a complete view of the risk profile of the current positions undertaken by each Clearing Member, and by all of them simultaneously (the portfolio-level coverage assessment).

In addition, the Corporation performs theoretical stress testing. For example, the

Corporation simulates the impact of a parallel and twist shifts in the interest rate curve; large moves (up or down) in specific contracts and/or Underlying Interests; and the impact of multiple Clearing Members defaults.

Also the results of the scenarios are designed to ensure that the Corporation captures any corporate relationships between different affiliated Clearing Members.

The results are communicated to the Risk Management and Advisory Committee (RMAC) on a regular basis.

CONTRACT ADJUSTMENT

- Section A-902 of the Rules prescribes the cases in which an adjustment may be made.

The Corporation is responsible for monitoring and identifying the corporate events that may result in an adjustment. It interprets the information and communicates it to the Clearing Members of the Adjustments Committee as soon as possible. The Adjustments Committee acts in accordance with the provisions of Rule A-9.

A meeting of the Adjustments Committee is called by the Corporation, whenever circumstances require. The Committee is responsible for preparing the draft notices to the Clearing Members which, once approved by the Committee members, are published to the attention of the Clearing Members and the market participants.



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Default Manual

Version of February 10, 2012

This Default Manual (the “Manual”) is intended to summarize the Rules of the Canadian Derivatives Clearing Corporation (“CDCC” or the “Corporation”) and confirm certain details concerning the actions the Corporation may take with respect to Clearing Members in financial difficulty, potentially in default or in default of obligations under the Rules. This manual describes the Corporation’s possible course of action, including management of a default situation, authority, communication with a Clearing Member and implementation. **In case of conflict between the provisions set out in this Manual and the Rules of the Corporation, the Rules will prevail.** Terms with capitals which are not defined in this Manual have the meanings ascribed to them in the Rules.

A fundamental objective of a central counterparty is to ensure the integrity of payments and/or physical delivery of securities, even in the unlikely event of a Clearing Member default. Since the default of one or more Clearing Members may have an impact on the continuity of clearing operations, the Corporation must ensure that efficient mechanisms and processes are in place, capable of limiting the adverse impacts of such an event, with respect to monitoring and the determination of a Clearing Member’s Non-Conforming Member status and a Clearing Member’s suspension. As such, this Manual is meant to:

1. describe the governance process followed by the Corporation subsequent to Clearing Member default;
2. enumerate the actions taken by the Corporation through the course of default management;
3. describe the financial resources employed; and
4. describe the responsibilities of non-defaulting Clearing Members during this process.

Section 1: Overview of Default Process

In the following section, the Corporation’s overall default management processes are described. Key sections include Objectives of Default Management, Definition of Default, Implications of Default, Forms of Default as specified by Rules, Corporation Prerogatives in the Default Mitigation Process, and Financial Remedies to cover Default-Induced Losses. In subsequent sections, the Manual will describe the specific actions to be taken by the Corporation during the default identification process, all the way through the steps taken to mitigate losses, wind down defaulted Clearing Member positions, protect the functioning of the markets and the clearing process, coverage of losses, etc. Prior to that, a general overview of the default process is set forth below:

OBJECTIVES OF DEFAULT MANAGEMENT

Participants in the default management process should at all times bear in mind the objectives of the default management exercise. These are delineated below:

- To minimize Clearing Member losses deriving from an inability of the Corporation to make settlement payments, protect Clearing Member Margin Deposit, or otherwise manage its responsibilities in a manner consistent with orderly markets.
- To ensure the continued effective functioning of the clearing process both during and after the event of default.
- To use all available powers and resources to protect the financial assets and positions of Clearing Members not contributing to the condition of default. This includes, wherever possible, the comprehensive and efficient transfer of all solvent Client Accounts associated with a defaulting Clearing Member.
- To minimize the market impact of the default management process.
- To ensure the continued solvency of the Corporation, both during and after the default management process.
- To facilitate the management of any regulatory action associated with the default.

Corporation management, staff and agents should conduct themselves at all times during the default management process in a manner consistent with these objectives, and in general without regard to other considerations.

DEFINITION OF DEFAULT

Critical to the process of default management is, of course, defining the condition of default. As a general rule, the Corporation views any situation which would, in the judgment of the Corporation, impede a Clearing Member's ability to meet its obligations, as specified in the Rules, as grounds to declare default. The most direct example of such a condition occurs when a Clearing Member fails to meet settlement requirements to CDCC. Additional examples of default conditions include but are not limited to, Clearing Members (or their Affiliates) that have:

- Failed to post required Margin.
- Failed to pay the contribution to the Clearing Fund.
- Failed to pay fees, interest, penalty, damages and any expenses as prescribed by the Corporation.
- Failed to meet a financial payment or any other financial obligation, including, most notably, those associated with other central clearing organizations ("CCOs").
- Generated any conditions that might indicate financial insolvency (i.e. bankruptcy filing, receivership, or forfeiture of control of property).
- Violated membership standards of other Self Regulated Organizations ("SROs") or regulatory bodies or any other event that indicates that a future default event is imminent, that the Corporation views to be of material importance.

Note: Failure to deliver a physical quantity may or may not constitute a default, depending upon the specific circumstances of the failure.

In general, the condition of default is one which must be determined by the Corporation's management in the case of the declaration of Non-Conforming Member status and by the Board in the case of the suspension of a Clearing Member.

IMPLICATIONS OF DEFAULT

A Clearing Member's default is among the most serious issues faced by the Corporation, as it can have myriad consequences, and in the most extreme cases, can threaten both the continued effective functioning/integrity of the markets, as well as the viability of the Corporation itself. More narrowly, a Clearing Member default can result in losses to the Corporation, other Clearing Members and their Clients, can impact the funding liquidity of these entities and can disrupt the routine functioning of the markets. As such, the Corporation must have adequate financial and risk management resources, in order to identify potential conditions of default, assess potential damage, mitigate market and financial impacts, and apply appropriate financial remedies to minimize losses for both itself and its stakeholders.

The Corporation must therefore commit appropriate resources and have in place proper procedures to ensure that the Clearing Members meet all standards of membership. The Rules, notably Rule A-1A – Membership in the Corporation, Rule A-3 – Capital Requirements, Rule A-6 – Clearing Fund Deposits and Rule A-7 – Margin Requirements, provide for such oversight authority, and must be adhered to with extreme rigor.

FORMS OF DEFAULT AS SPECIFIED BY RULES

The Rules specify two distinct status levels associated with the condition of default. The first such form is Non-Conforming Member status. At any point when the Clearing Member is or may be insolvent or become unable to meet its obligations, management may declare that Clearing Member to be a Non-Conforming Member. This action provides the Corporation with the authority, as further specified below, to undertake a wide range of mitigating actions.

If, however, in its judgment, the suspension of a Non-Conforming Member may protect the integrity of the market, the Board can choose to suspend the Non-Conforming Member. Suspension is the second and more serious level of default.

CORPORATION PREROGATIVES IN THE DEFAULT MITIGATION PROCESS

In the event that the Corporation or the Board, as applicable, chooses to place a Clearing Member, in either Non-Conforming Member status or suspension, it must as soon as practicable act to assess the situation and ensure that any and all remedies available to it are at its immediate disposal. It may therefore choose to undertake any of the following sets of actions in its efforts to mitigate associated damage:

- Place all accounts on liquidation only status.
- Seize control of all Open Positions held by the defaulting Clearing Member.
- Gain access, and, if necessary, control of Clearing Member prescribed records, so as to ensure the continued efficient processing of business, and to ensure the defaulting entity continues to comply with all Rules and mandates.

- Transfer all or any portion of a defaulting Clearing Member's accounts to another Clearing Member.
- Seize all Margin Deposits posted to the Corporation, including the defaulting Clearing Member's contribution to the Clearing Fund.
- Undertake any legal action against the defaulting Clearing Member that in the judgment of the Corporation may help to mitigate default-related losses.
- Neutralize market exposures through the use of hedging instruments where as determined by the Corporation, market conditions do not allow for an orderly auctioning or closeout of a defaulting Clearing Member's Open Positions in a timeframe which is consistent with the Corporation's risk management model.
- Render a determination as to which Firm Accounts and Market Maker Accounts (subject to the objective of protecting to the largest extent possible, all solvent Client Accounts) might have offsets which could be netted for risk reduction purposes.
- Effect liquidation of Open Positions, either directly by Corporation staff, or as appropriate, through outside agents.
- Schedule an auction to transfer all remaining Open Positions to other Clearing Members at best available prices.
- Potentially postpone delivery obligations if, in the judgement of the Corporation, not doing so would expose the Corporation and surviving Clearing Members to increased risk of financial loss.
- Apply any and all available financial remedies, as further described below:
 - Prohibit and/or impose limitations on the acceptance and / or clearance of Transactions by the defaulting Clearing Member.
 - Sanction, reprimand, fine or impose a penalty on the defaulting Member.

In any situation where the Corporation has reason to believe that a pending default may lead to losses, it must act, according to its own judgment, as directed by the management or the Board, as applicable, to apply the mitigants referenced above, as well as others deemed appropriate, to ensure minimal damage to itself, its stakeholders and the markets. The Corporation must use any and all commercially reasonable efforts to manage the default process.

FINANCIAL REMEDIES TO COVER DEFAULT-INDUCED LOSSES

In the event that a Clearing Member has been declared a Non-Conforming Member or has been suspended, the Corporation, as specified above, must make all commercially reasonable efforts to eliminate or otherwise limit the loss to the Corporation associated with the default process. However, there are, of course, no means available to ensure in all cases that the Corporation can be made whole, its best efforts in this regard notwithstanding. In the event that the management of the default process generates losses to the Corporation, the Corporation must apply, in specified order, a series of financial remedies to ensure its ongoing viability and financial solvency. Following is a description of these financial resources, as

presented in the order in which the Corporation would apply them to cover unsatisfied claims associated with the liquidation of a defaulting Clearing Member.

Note that these financial remedies fall into two categories. The first such grouping is a list of the assets posted by the defaulting Clearing Member itself. The Corporation, in its efforts to cover its obligations, would first exhaust this pool of assets, before applying certain of its own resources, and those of the other Clearing Members, in the resolution of the shortfall.

In the event that after the application of the defaulting Clearing Member's assets, a financial shortfall persists, then the Corporation must apply certain of its own assets and those of the remaining Clearing Members to satisfy the residual obligation. The various pools available to resolve any financial loss, and the order in which the Corporation would utilize them, is set forth immediately below.

Defaulting Clearing Member Resources

Defaulting Clearing Member Margin Deposit. The first line of financial protection, of course, is the Margin Deposit posted by the defaulting Clearing Member as part of the Corporation's routine collateralization process.

Defaulting Clearing Member's Contribution to the Clearing Fund. As specified by the Rules, each Clearing Member must post an additional contribution to a separate Clearing Fund, the amount of which is determined by the size of Corporation exposures and the amount each Clearing Member contributes to this exposure, on a relative basis as well as the types of Transactions a Clearing Member has been accepted to clear by CDCC. Once the Corporation has exhausted the defaulting Clearing Member's Margin Deposit, it will next apply these resources to the loss mitigation effort.

If after applying these resources of the defaulting Clearing Member, a shortfall still remains, the Corporation would look to the following common resources of the system to cover the loss:

Resources of the Corporation and the System

Corporation Capital Resources. The Corporation would first look to its own capital, but only to its capital reserves set aside for this purpose, which are currently a maximum of \$5 million.

Other Clearing Member Clearing Fund Deposits. The Corporation would next apply the remaining balances in the Clearing Fund, on a pro-rata basis as determined by the size of each Clearing Member's contribution.

Assessment of Other Clearing Members. If after applying all of the remedies specified above, a loss still persists, then the Corporation, as specified in Section A-610 of its Rules, may request that the remaining Clearing Members replenish their Clearing Fund contributions to their original levels and use on a pro rata basis according to CDCC's exposure to each remaining Clearing Member, an amount that in total satisfies the outstanding obligation.

The Corporation must act with rigor to ensure it follows these policies, executes them effectively and communicates with all relevant parties in an effective fashion. In the event that the Corporation is later able to recover any loss incurred from the defaulting Clearing Member, it shall first reimburse any contributions to the Clearing Fund of the remaining Clearing Members that were used to cover the loss, before reimbursing CDCC's own capital reserves used.

Section 2: Default Management Governance Procedures

In this section, the Corporation outlines the specific actions to be taken by its staff, management and the Board, in order to ensure that it quickly identifies, reacts to, and effectively manages a condition of default

CORPORATION PREROGATIVES/RESPONSIBILITIES PRIOR TO THE DECLARATION OF NON-CONFORMING MEMBER OR SUSPENSION

In the default process, it is important for the Corporation to react in as timely a fashion as possible to identify the potential for a default by a Clearing Member. As such, under the authority of the President or his designee, if at any point the Corporation receives information which would, in its view, acting reasonably, likely lead to a default event by any Clearing Member, it will convene a meeting as soon as practicable of the Default Management Committee, which is comprised of the individuals holding the following positions (and/or any other representatives or designees deemed appropriate to involve in the process):

- Managing Director
- President and Chief Clearing Officer
- Secretary
- Assistant Secretary
- Treasurer
- Director of Risk Management
- Director of Member Services

At this meeting, the Default Management Committee will strike an Emergency Committee which will include the Director of Risk Management as Chairman, and whose members will also include the Director of Member Services and/or the Treasurer. It will be the responsibility of the Emergency Committee to provide an ongoing assessment of the situation, and to report back, as appropriate, to the Default Management Committee and the Board, so as to ensure these bodies are in a position to render informed decisions throughout the process.

In addition to the process of organizing these three committees, the Corporation has the following set of prerogatives and responsibilities, and will act according to the following protocols, in managing any situation, which, in its judgment places it in a condition where the risks of default are elevated.

Criteria for Implementing Introductory Default Procedures

Following is a subset of the types of events which would set the default management procedures, including the convening of CDCC committees, into motion. Note that none of these events, individually or in combination, necessarily implies that a declaration of default by CDCC, in either of its specified forms, is imminent. The events may, however, impel the Corporation to set introductory default procedures, as specified above, in motion. Pursuant to subsection A-1A04(1) of the Rules, a Clearing Member may also become a Non-Conforming Member by notice to the Corporation that it is or may become insolvent or unable to meet its obligations.

Violation of Standards of Membership

Rules A-1A and A-3 establish the standards of membership and the minimum capital requirements that must be respected at all times.

The Corporation may address a Clearing Member's breaches of standards of membership without declaring such Clearing Member to be a Non-Conforming Member or suspended by, for example, making an additional Margin call and/or imposing clearing restrictions.

Failed and Partially Failed Deliveries of Acceptable Securities

Section A-804 addresses failed deliveries and partial deliveries of Acceptable Securities. Failed deliveries and partial deliveries of Acceptable Securities do not automatically trigger Non-Conforming Member status or a suspension. Section A-804 sets out the applicable mechanisms for this type of situation. Ultimately, if the Clearing Member is not in good standing with the Corporation, the Corporation may consider it necessary to declare the Clearing Member to be in default.

Section B-407 addresses the failed delivery of any Underlying Interest of an Exchange traded Option.

Section C-512 addresses the failed delivery of any Underlying Interest of an Exchange traded Future other than an Acceptable Security.

Section D-304 addresses the failed delivery of any Underlying Interest of an OTCI that is not a Fixed Income Transaction.

Settlement Failure at Other Recognized CCOs

If the Corporation learns that a Clearing Member has failed to meet its obligations to another CCO, it must operate as though there is an imminent threat of failure to the Corporation itself, and may, at the Corporation's discretion, invoke introductory default procedures.

Default on any Principal Obligation

If a Clearing Member fails on a general obligation, such as a coupon payment on its own outstanding debt, it may be considered to be insolvent or unable to meet its obligations and the Corporation may, at its discretion, invoke introductory default procedures.

Civil or Criminal Indictment of Clearing Member and/or Principals

Action by a regulatory agency, administrative authority or court against a Clearing Member and/or its key principals may or may not place it in a condition of financial impairment. As a matter of sound practice, the Corporation should, under these circumstances, effect introductory default procedures.

Note that the above-supplied list is not intended to be exhaustive, but rather merely illustrative of the types of events which should trigger the introductory implementation of default procedures.

Pre-default Actions and Remedies

Prior to the declaration of either form of default, the Corporation has a number of remedies to further protect itself from associated consequences. The principal one of these is the imposition of additional Margin requirements, clearing restrictions and penalties, concepts that are further described below:

Imposition of Additional Margin Call

In accordance with Section A-702, the Corporation may, without advance notice and at its sole discretion, impose an additional Margin call on a Clearing Member for an indeterminate period. While this is true under a wide range of circumstances, it particularly pertains to situations where the Corporation has reason to believe a default is imminent, and has begun the implementation of preliminary default procedures.

Authority

Management of the Corporation.

Communication

The Clearing Member will be informed and will have to meet its additional Margin requirements within the same deadlines as regular Margin calls.

Moreover, in accordance with Section A-303, the Clearing Member must notify the Corporation if it does not meet the Corporation's capital requirements and those imposed by the Investment Industry Regulatory Organization of Canada ("IIROC") or the Office of the Superintendent of Financial Institutions. Ultimately, if this situation is not resolved, the Corporation reserves the right to suspend the Clearing Member after receiving the approval of the Board. For more details, please refer to the section below on Clearing Member suspension.

Implementation

This additional Margin will be added to the amount of Margin.

Imposition of Clearing Restrictions

In accordance with Section A-308 - Restrictions on Certain Transactions and Positions, the Board may impose clearing restrictions on a Clearing Member considered to be in difficulty.

When the decision takes effect, the Corporation will notify the Clearing Member of restrictions that will be applied immediately. However, the Clearing Member may execute certain Transactions, with the Corporation's consent, to maintain its position in good standing.

Communication

The Clearing Member will be informed and must conform to the clearing restrictions within reasonable deadlines.

Ultimately, if the situation is not resolved, the Board may suspend the Clearing Member. For further information, please consult the section below on Clearing Member suspension.

Implementation

The Corporation may establish clearing restrictions on certain Transactions.

Forms of Default

As indicated above, the Corporation recognizes two forms of default, Non-Conforming Member status and suspension. The first of these is the weaker form of the two, can be implemented by the Corporation, and is viewed by the Corporation to be a temporary status, which is either rectified by the Non-Conforming Member in a timely and comprehensive fashion, or face further actions by the Corporation. Specifically, the next step in the process would be to declare a suspension of the Non-Conforming Member. This is the final, in many ways irrevocable step in the default declaration process and must be effected by the Board.

DECLARATION OF NON-CONFORMING MEMBER STATUS

The Rules provide for two categories of default for a Clearing Member: Non-Conforming Member status and suspension. Non-Conforming Member status can be determined by the Corporation's management, while a suspension must be ratified by the Board.

Section A-1A04 addresses Non-Conforming Member status.

The grounds for declaring Non-Conforming Member status are set out in Subsection A-1A04(3) but are not exhaustive. The next step following Non-Conforming Member status is suspension.

A Clearing Member which is or may become insolvent or is unable to meet its obligations shall immediately inform the Corporation of this situation by telephone. Alternatively, the Corporation must inform the Clearing Member in writing or by telephone when it has become a Non-Conforming Member.

The measures prescribed by the Rules regarding Non-Conforming Members may be taken in the order that the Corporation considers appropriate. The measures are set out in Rule A-401 and include:

- Prohibiting and/or imposing limitations on the acceptance and/or clearance of Transactions by the Clearing Member;
- Requiring this Clearing Member to reduce or close out existing Transactions in such Clearing Member's accounts with the Corporation;
- Requiring the Clearing Member to transfer to another Clearing Member any account it holds with the Corporation, any position maintained in such account, or any account established by the Clearing Member;
- Applying the Margin Deposit and Clearing Fund deposit of the Non-Conforming Member in accordance with the Rules;
- Sanctioning, fining or imposing a penalty on the Non-Conforming Member;
- Suspending the Non-Conforming Member.

- Prevent or restrict the Non-Conforming Member's right to withdraw any excess in Margin Deposits

Authority

The Corporation may decide on Non-Conforming Member status.

Required Response by Non-Conforming Members

A Clearing Member which has experienced an event, technical or otherwise, in which it fails to meet any of its day to day operational needs for its business must inform the Corporation immediately of such event. Failure to notify the appropriate Corporation staff members immediately may result in administrative action. A Non-Conforming Member may in certain cases remedy its situation via wiring required funds or posting additional collateral to the Corporation.

Contemporaneous to the notification of Non-Conforming Member status to a Clearing Member, the Corporation will ask such Clearing Member to state in writing its assertions with respect to each of the following:

- Cause of the action which placed it in Non-Conforming Member status.
- Remedies for the immediate circumstance.
- Changes in its financial profile and operating protocols to guard against recurrence.

Corporation staff will work with the Non-Conforming Member, to secure and assess its written response. Contemporaneously, the Emergency Committee will work with the Default Management Committee to determine any potential immediate additional actions, including recommendations to the Board regarding suspension.

In the event that a remedy occurs in a timely fashion, the Corporation will review the Non-Conforming Member's written explanation and will then determine next steps, including the potential removal of Non-Conforming Member status, or recommendations to the Board for suspension.

In executing these procedures, the Corporation must remain mindful of the narrow time window available to it to determine next steps in the process. It is essential that all members of management and all Board members make themselves available as necessary to render timely and efficient decisions under these circumstances.

Communication

The Clearing Member should notify the Corporation if it is insolvent or unable to honour its obligations under the Rules. The Corporation may notify the appropriate regulatory authorities.

However, in the event that the Clearing Member is declared as a Non-Conforming Member by the Corporation, the Corporation must inform the Clearing Member in writing or by telephone.

Implementation

The Corporation must work in concert with the Non-Conforming Member and the appropriate regulatory authorities to rectify the Clearing Member's Non-Conforming Member status.

These actions are not exhaustive, are not necessarily presented in chronological order, and can be adapted as required by the Corporation according to the circumstances that prevail during period the Clearing Member is a Non -Conforming Member.

- The situation has been confirmed with the Clearing Member.
- The Corporation may seize the Clearing Member's Margin Deposits.
- The Corporation may on its own accord restrict the Transactions of the Non-Conforming Member.
- If payments are to be made by the Non-Conforming Member to the Corporation, the Corporation may apply the seized Margin Deposits if it deems that they must be paid before the Clearing Member is suspended.
- The Corporation may also ask the Non-Conforming Member to close out its market positions.
- The Corporation may also require the Non-Conforming Member to transfer its Clients' positions.
- If the Clearing Member must execute deliveries, then the Corporation could make an agreement with the receiving Clearing Member and the Non-Conforming Member or take any other appropriate action so that the Clearing Member's obligations are honoured.
- Assign the proceeds of the liquidation of the Clearing Fund and Margin Deposit of the Non-Conforming Member to any default-related shortfall.
- Impose sanctions, fines or penalties on the Non-Conforming Member of the Corporation.
- Prevent or restrict the Clearing Member's right to withdraw any excess in Margin Deposits.
- The Corporation may call an emergency meeting of the Board to determine whether a Non-Conforming Member warrants suspension.

Notifications

Once the Corporation has declared a Clearing Member to be a Non-Conforming Member, the Corporation will immediately consider its notice obligations. Those entities whose notification rights must be considered include:

- The general population of Clearing Members.
- Appropriate regulatory authorities.

- Exchanges and CCOs.

While it will be the prerogative of the Corporation to determine the timing and content of its outside disclosures, it will nonetheless immediately inform any CCOs with which the Corporation has in place a Memorandum of Understanding for such information sharing.

DECLARATION OF A SUSPENSION

Subject to the discretion and approval of the Board, a Clearing Member may be suspended after it has been declared a Non-Conforming Member in accordance with Section A-1A04 or any other conditions that the Corporation may deem relevant. These rules relate to Non-Conforming Member situations, but can also be applied to any situation involving a suspension.

Once the Board approves a suspension, the Corporation ceases to act on behalf of the Clearing Member.

Authority

The Board has the authority regarding the suspension and lifting of a Clearing Member's suspension.

Notifications

Once the Board has declared a Clearing Member to be suspended, the Board will immediately consider its notice obligations. Those entities whose notification rights must be considered include:

- The general population of Clearing Members.
- Appropriate regulatory authorities.
- Exchanges and CCOs.

While it will be the prerogative of the Board to determine the timing and content of its outside disclosures, it will nonetheless immediately inform any CCOs with which the Corporation has in place a Memorandum of Understanding for such information sharing.

Implementation

According to Subsection A-1A05(2), the Corporation ceases to act on behalf of the suspended Non-Conforming Member.

As mentioned in Subsection A-1A05(3), the suspension may be total or may be for any function with respect to a particular security or class of securities, with respect to a particular Transaction or class of Transactions, or with respect to securities or Transactions generally.

The Board may lift a Clearing Member's suspension at any time. As mentioned in Section A-1A07, the Clearing Member may appeal its suspension.

Once the Board decides on the Clearing Member's status, the Corporation may take several courses of action. The list set out below is neither exhaustive nor necessarily in chronological order, and the

actions can be adapted by the Corporation according to the circumstances prevailing at the time of a suspension.

- The Clearing Member is notified of its suspension.
- The Corporation will open a Liquidating Settlement Account to manage the positions and the Margin Deposits of the suspended Clearing Member.
- For the purpose of the Liquidating Settlement Account Margin Deposits with respect to a Client Account will only secure the performance by the Clearing Member of its obligations in respect of that Client Account. Margin Deposits for Market Maker Accounts or Firm Accounts will secure a Clearing Member's obligations with respect to Client Accounts as well as Market Maker Accounts or Firm Accounts, as the case may be.
- The Corporation will restrict the Transactions of the suspended Clearing Member.
- The Corporation may seize the Clearing Member's Margin Deposits, and the positions will be transferred to the Liquidating Settlement Account. The Corporation, at its discretion, may send only the net positions to the Liquidating Settlement Account.
- The Corporation may convert the suspended Clearing Member's Margin Deposits into cash in order to cover any loss or amount owed by the suspended Clearing Member.
- The Corporation may liquidate, transfer or maintain the suspended Clearing Member's positions, depending on the market conditions. The positions may be liquidated directly on the market or among the offers received from Clearing Members contacted in advance by the Corporation, and transmitted to the Corporation regarding the portfolios to be liquidated.

Section 3: Default Management and Staff

As indicated in Section 2, the Corporation's procedures for the management of a default are governed, under the auspices of the Board, by two Committees, presented below in their hierarchical order:

- Default Management Committee
- Emergency Committee

In this section, the Manual addresses the activities of the Emergency Committee, which is tasked with the specific, real-time and day-to-day oversight of the default control process. Key members of this Committee include the individuals holding the following positions and/or their designees:

- Director of Risk Management, Committee Chairman
- Director of Member Services
- Treasurer

Each of these individuals, in managing their departments, must act with due rigor to assess issues, identify associated magnitudes, recommend actions and inform management, the Board and other Corporation stakeholders, as appropriate.

The key responsibilities of each department are described below:

RISK MANAGEMENT

The Corporation's Risk Management Department will serve as the central coordinating unit in the management of the default control process. Its Director will be responsible, among other matters, for the following set of critical activities:

- Convening and coordinating meetings of the Emergency Committee.
- Acting as liaison to the Default Management Committee.
- Working with external entities to mitigate damage.
- Providing written documentation and status reports to appropriate parties.
- Coordinating and evaluating any interactions, written and oral, with the defaulting Clearing Member.

In addition, the Risk Management Department will be responsible for the following critical procedures.

Introductory and On-Going Risk Assessment.

At the earliest point deemed appropriate by any of the three committees described above, the Risk Management Department will perform a comprehensive analysis of the exposures inherent in the

defaulting Clearing Member's portfolio. Moreover, as the liquidation and remedy process ensues, it will perform as many such assessments as are necessary to render decision-makers informed as to the status of the defaulted portfolio. In doing so, it will utilize internal risk assessment systems, those, as appropriate, of the defaulting Clearing Member, general market intelligence, and other appropriate tools of risk assessment. Further, its assessment will consider the following key factors:

- Portfolio content in general.
- Prevailing and prospective market conditions.
- Portfolio liquidity characteristics.
- The presence of complex derivatives such as options.

Based upon all of the above, it will render an introductory and routine follow-up written assessments as to the potential magnitude of losses, the factors driving such losses, and its best thoughts as to appropriate market-based remedies. In cases of market disruption and/or the potential for large losses, the Department will issue these reports on a daily basis, or more frequently, as deemed appropriate.

In addition, and as discussed in further detail below, it will perform such analysis on the basis of the total portfolio content of the defaulting Clearing Member, as well as any subset of the portfolio which would remain in the event that Corporation governing bodies decide to transfer positions to other Clearing Members.

Oversight of the Liquidation Process, Including Management of the Liquidating Settlement Account.

As referenced above, the Corporation may decide to establish a separate Liquidating Settlement Account to manage any liquidation of positions resident in a suspended Clearing Member's portfolio. However, irrespective of whether the Corporation effects such a transfer, or, alternatively, decides to manage any liquidation process directly through the clearing accounts of the defaulting Clearing Member, the Risk Management Department will oversee the liquidation process on behalf of the Corporation.

In performing these duties, the Corporation may choose to engage outside agents to assist in the liquidation process, and in the event that it does choose such an option, the Risk Management Department will coordinate all activities in conjunction with these outside agents.

Finally, with respect to the liquidation process, the Risk Management Department will consider all alternatives involving exposure mitigation for the defaulted Clearing Member's portfolio, including those involving the hedging of rather than the liquidation of specific positions contained therein. Note in such cases that the Corporation may consider the use of instruments not part of the organization's clearing universe, including cash securities.

LEGAL DEPARTMENT

In the event of a Clearing Member default, the Legal Department, acting in conjunction with other key officers of staff of the Corporation, must as soon as practicable assess the legal status of the defaulted Clearing Member's operations and solvency. Further, it must act with all due rigor and expediency to ensure that the Corporation's claims against the defaulting Clearing Member achieve the appropriate status in any broad-based liquidation of the defaulting clearing enterprise. Among other matters, the

Legal Department must take into consideration in this regard the precise location and source of the insolvency within the defaulting Clearing Member's corporate group.

In many cases, a Clearing Member may be one of many subsidiaries of a large corporate enterprise; in others, the Clearing Member is a parent company itself. It is the responsibility of the Legal Department, based upon its knowledge of these structures, to determine and execute appropriate legal remedies to ensure that the Corporation's legal interests in any insolvency are fully and expeditiously represented.

In addition to the foregoing, the Legal Department is responsible for the following set of actions pursuant to the default mitigation process.

- Issuing any legal correspondence to the defaulting enterprise, including those associated with the freezing of assets and Margin Deposit, the demand for further financial considerations, the suspension of any and/or all clearing related activities, etc.
- Filing any claims in bankruptcy or insolvency court.
- Assessing and following up on any jurisdictional issues attendant to the default.
- Managing all communications with outside parties, including the general body of Clearing Members, market participants, regulatory authorities, representatives of the media, etc.
- In conjunction with the Compliance Department, interacting with regulatory agencies, particularly in such cases where laws and regulations may have been breached in the sequence of default-related events.
- Drafting and execution of all legal agreements, including Non-Disclosure Agreements, proxies and operating agreements with outside parties with whom the Corporation might engage in the default mitigation process.
- Liaising activities with the legal activities of other organizations, including Clearing Members, other CCOs, contractual counterparties, etc.

As is the case with the Risk Management Department, the Legal Department will draft written assessments and associated recommendations, pertaining to all legal issues faced by the Corporation as the result of the default.

AUDIT DEPARTMENT

Depending on the circumstances of the default, and in any situation where the Corporation deems it a probability that defaulting Clearing Member assets and Margin may be insufficient to cover the costs of a pending liquidation, the Audit Department must immediately seize whatever control of the books and records of the defaulting Clearing Member as are deemed necessary to manage the liquidation and transfer process on an account-by-account basis.

This set of activities is both time critical and essential to the default management process. The Corporation does segregate Firm Accounts and Market Maker Accounts from those of Client Accounts, and it is incumbent upon the Audit Department, working, as appropriate, with other Corporation Departments, to identify the account-based source and associated magnitude of the default inducing shortfall.

In doing so, the Audit Department will create a modified accounting ledger, which separates solvent accounts from non-performing ones. If the default is determined by the Audit Department to have originated and remain isolated to Firm Accounts and Market Maker Accounts, then this ledger will simply be comprised of a separation of Client Accounts from Firm Accounts and Market Maker Accounts.

If, however, the source of the shortfall is determined to reside, in whole or in part, within Client Accounts, then the Audit Department must create a ledger with the following components:

- Firm Accounts and Market Maker Accounts.
- Solvent Client Accounts.
- Client Accounts in Debit/Deficit.

Working with the Risk Department, the Audit Department will then render a written assessment, with recommendations, to appropriate Corporation governing bodies as to the viability of transferring solvent Client Accounts, in whole or in part, to the books of other Clearing Members. Note that, as specified in the Objectives section of this Manual, the efficient and comprehensive transfer of all solvent Client Accounts is an identified objective of the default management exercise. As such, the Corporation will do everything in its power to transfer all solvent client accounts in an efficient manner, and will only stop short of this objective under the following set of circumstances:

- The Corporation is unable to find Clearing Members willing to assume the solvent Client Accounts of the defaulting Clearing Member.
- The Corporation, as determined by the Board, believes that the transfer of all solvent Client Accounts would either impede its viability, or disrupt the efficient functioning of its markets.

If, in the judgment of the Corporation, such a transfer is indeed deemed advisable, then the Audit Department will work in conjunction with other Departments to effect such a transfer in a timely and efficient manner.

In the event that the Corporation achieves a comprehensive transfer process, under which only insolvent Client Accounts and all Firm Accounts and Market Maker Accounts remain on the books of the defaulting Clearing Member, then the Audit Department will act in such a way as to deem all remaining open positions as being proprietary in nature. It may also, at its discretion, work with the defaulting Clearing Member, the Legal Department and other appropriate entities, to seek further financial remedies from insolvent Clients.

Note that with respect to securities, cash and other Margin deposited and pledged or transferred as part of the Corporation's activities in the clearance and margining of Repurchase (Repo) Transactions, the Audit Department, working in conjunction with the Legal and Risk Departments, must render an assessment as to the advisability of retaining Margin collateral (used to protect the Corporation from losses associated from fluctuating price differentials between the cash and securities) applied to the Transaction, or returning it to its beneficial owners as part of the unwind of associated Transactions. While the Corporation reserves the right to either hold or release these assets, it will bear in mind the customer protection sections of the Objectives section of this manual, and as such, will only choose not to release them if it believes, in its judgment that, that such release would impede the viability of the Corporation or the effective functioning of its markets. As such, the decision to withhold the release of

Repo-related assets must be made by senior management or the Board, as deemed appropriate during the default management process.

FINANCIAL DEPARTMENT

The main responsibility of the Financial Department in the event of a Clearing Member default is to manage the process of securing all cash and collateral needed by the Corporation to ensure that any losses pursuant to the default are managed to their absolute minimum. These sources of funds include:

- Defaulting Clearing Member Margin Deposit
- Defaulting Clearing Member Clearing Fund Contribution
- Other assets sourced from the defaulting Clearing Member working in conjunction with the Legal Department

The key areas of responsibility for the Legal, Audit, Financial and Risk Departments, who have the primary front line responsibilities in the default mitigation process, are summarized in the following table:

	Legal	Audit	Financial	Risk
Role	Determine legal status of Non-Conforming Member	Review books and records at Clearing Member, identify if fraud has occurred Determine the cause of failure and isolate impaired accounts	Freeze all settlements of Non-Conforming Member Convert all collateral to cash Assist in potential remedies	Determine exposures on a net basis Oversee netting of positions, and liquidation process
Monitoring	Review relationship with any affiliates Review parental guarantees	Create a ledger of all good Client Accounts, and move all Non -Conforming accounts to a Firm Account	Work with other CCOs Oversight of potential remedies	Will consider the path to liquidating securities to minimize potential loss to CDCC May consider hedges and risk offsets May run an auction for non-liquidated positions May request assistance of outside parties Provide daily or more frequent updates to

	Legal	Audit	Financial	Risk
				CDCC staff, Default Management Committee and Board

OTHER DEPARTMENTS

The Corporation's other Departments will work in conjunction with the groups named above, as deemed appropriate under the specific circumstances of the default. The Member Services Department will work specifically on all aspects of position and collateral management, as directed by the Emergency Committee.

Section 4: Financial Remedies to Cover Default Induced Shortfalls

This section goes into further detail as to the financial remedies upon which the Corporation must rely, in the event that the liquidation of a defaulting Clearing Member generates losses beyond those that can be covered by the resources available to it from the defaulting entity, including:

- Defaulting Clearing Member Margin Deposit.
- Defaulting Clearing Member contribution to Clearing Fund.
- Any additional Margin assessments the Corporation obtains from the defaulting Clearing Member.
- Any additional collateral that the Corporation can obtain through legal and financial measures.

By this point in the process, the Corporation, according to the procedures set forth in previous sections, should have placed itself in a position where it has done all in its power to mitigate losses associated with the liquidation/transfer of the linkages to the defaulting Clearing Member. If, as the result of this process, the Corporation finds itself facing a residual shortfall, it must undertake the following steps, in the priority order set forth below.

CORPORATION CAPITAL

The Corporation will commit capital reserves to any default-induced shortfall currently up to a maximum of \$5 million, prior to effecting an assessment upon other Clearing Members. The amounts of such commitment, as well as their timing, must be approved by the Board.

CLEARING MEMBER ASSESSMENT CYCLE(S)

In the event that a residual loss associated with the default of a Clearing Member exceeds that which can be covered by the combination of the collateral available in the defaulting Clearing Member's accounts, and the capital reserve contributed by the Corporation itself, the Corporation will then turn to its assessment powers against other Clearing Members, to satisfy this shortfall.

For the purposes of this exercise, Clearing Member assessments can take multiple forms, as specified below:

Clearing Fund

The Corporation maintains a Clearing Fund, which is capitalized by all Clearing Members, at levels designed to cover what is specified in Rule A-6, as uncovered residual risk (URR). The Corporation calculates URR for each Clearing Member on a monthly basis, based upon position information derived over the previous 60 business days, as determined by a series of stress tests that derive from periods of previous market disruption, dating back to the 1987 stock market crash, and extending forward to the financial collapse of 2008. Details with respect to the methodology used by the Corporation to calculate Clearing Fund contributions of Clearing Members are set forth in the Risk Manual.

In the event that the liquidation of a defaulting Clearing Member extends beyond the resources of this Clearing Member, and the capital reserves of the Corporation earmarked for this purpose, the Corporation

will next access the resources of the Clearing Fund to satisfy the outstanding obligation. The Corporation will access these funds on a pro rata basis, according to the contribution of each Clearing Member.

Additional Assessments.

In cases of extreme market and financial duress, and specifically in those instances where all of remedies set forth above, including the application of the Clearing Fund in its totality fail to cover the losses of a defaulting Clearing Member, the Corporation may seek to engage in an additional round of assessment. A decision to do so must be approved by the Board. In the event that the Corporation chooses to engage in an additional assessment to satisfy a default, it will utilize the same URR methodology that applies to the calculation of Clearing Fund contributions, to apportion these liabilities.

LIQUIDITY FACILITIES

While not a source of capital available for the offset of losses, the Corporation has available an array of liquidity facilities, which it may, at its discretion, call upon to assist with the funding of its loss mitigation activities. In the event of a default, The Corporation, as advised by the Emergency Committee must make a determination as to how to deploy these resources. Included among its alternatives are:

- Drawing upon the Corporation's commercial bank liquidity lines, in whole or in part.
- The raising of liquidity through out-rights sales and/or Repurchase Transactions involving Securities of the defaulting Clearing Member.
- Through the exercising of its rights of re-pledging/re-hypothecation of defaulter Margin Deposits
- Through the exercising of its rights of re-pledging/re-hypothecation of defaulter and survivor Clearing Fund Deposits.

The management of this process is one that should ensue across the entire course of the liquidation efforts, and the Corporation must make routine, periodic judgments as to how and when this funding merits deployment.

AUCTION PROCESSES

Immediately subsequent to the declaration of a suspension of a Non-Conforming Member, and contemporaneous to the Audit Department's efforts to isolate associated sources, the Corporation must make a recommendation to the Board as to the advisability of conducting an auction designed to transfer the remaining collateral and positions to those of another Clearing Member. If, in its judgment the Board determines that such a step is indeed called for, the steps in the process should follow the following sequence:

- The President of the Corporation will call the senior-most available representative of the defaulting Clearing Member, to notify the organization of its intent to hold an auction.
- The Corporation will execute a Non-Disclosure Agreement with the defaulting Clearing Member, enabling it, among other things, to show position and collateral information to potential auction participants.

- The Corporation will identify potential participants in the auction process. Note that these entities can include other Clearing Members and/or other investment enterprises.
- The Risk and Audit Departments will conduct an analysis to determine the ability of potential auction participants to participate in the auction without causing financial or operational impairment to their businesses. Only those enterprises that, in the judgment of the Corporation, meet this suitability test will be eligible for participation in the auction. Note that in the event that non-Clearing Member participants request to participate in the auction process, the Risk and Audit Departments must perform the suitability test not only on the potential participant, but upon its Clearing Member as well.
- All potential participants in the auction process must sign a Non-Disclosure Agreement, as a precursor to examining the portfolio and collateral content of the defaulting Clearing Member.
- The Corporation will then hold an individual auction separately for each asset class.
- Participants may bid on one or more asset classes, and will submit their bids on the basis of how much collateral they would require to assume the positions of the defaulting Clearing Member.
- The bids will be submitted on a sealed basis, and should be in the hands of the Corporation by the close of business on the date designated for auction.
- The Corporation will determine the winner of the auction on the basis of which participant has requested the least amount of collateral to support the position transfer process with priority to bidders whose risk profile improves (i.e. reduced or minimal marginal increase in risk exposure) subsequent to the inclusion of the defaulting Clearing Members positions.
- The Corporation will transfer all positions and collateral by the close of business the following day, as marked to the Corporation's routine settlement cycle.

In the event that the auction processes unfolds in such a way as to create a residual balance on the books of the defaulting Clearing Member, the Corporation will freeze this collateral, and await further instructions as to its disposition, from both the Legal Department and the Board. In the event that the auction proceeds in such a way as to generate a residual shortfall, then the Corporation, as determined by the Board, has the right to reject all bids, accept some bids and reject others, or accept the best bids submitted. Under these circumstances, the Corporation will then proceed with the implementation of additional mitigants, as set forth below:

- A negotiated allocation of existing Open Positions and associated Margin Deposits amongst surviving Clearing Members
- By invoking Rule A-404, CDCC may elect to closeout remaining Open Positions at price(s) that it deems reasonable based on best available market information.

[AMENDED AND RESTATED] DEPOSITORY AGREEMENT

THIS DEPOSITORY AGREEMENT, dated _____, is entered into between **Canadian Derivatives Clearing Corporation** (“**CDCC**”) and _____ (“**Approved Depository**”) (together, the “**Parties**” and individually, a “**Party**”) [and supersedes any previous form thereof]

WHEREAS, a customer of the Approved Depository that is either a clearing member of CDCC or a client of a clearing member of CDCC (in either case, a “**Customer**”) may hold a short position on a put option (a “**Put Short Position**”) or on a call option (a “**Call Short Position**”) or on a futures position (a “**Futures Short Position**”) issued by CDCC (collectively, a “**Short Position**”);

WHEREAS, the Customer may (i) deposit with the Approved Depository in trust for CDCC the aggregate exercise price in cash in respect of a Put Short Position, (ii) instruct the Approved Depository to transfer specific underlying securities to CDCC in respect of a Call Short Position, or (iii) instruct the Approved Depository to transfer specific underlying securities to CDCC in respect of a Futures Short Position (collectively, a “**Specific Deposit**”), as collateral for such Short Position in lieu of making margin deposits to CDCC in respect thereof; and

WHEREAS, the Parties wish to set forth and agree on the terms on which (i) the Specific Deposits will be held by the Approved Depository in trust for CDCC or transferred to CDCC through a central securities depository acceptable to CDCC, including CDS Clearing and Depository Services Inc. (“**CDS**”) (a “**Central Securities Depository**”), as the case may be, (ii) the Specific Deposits will be issued or deemed issued by way of: (A) put escrow receipts in the form of Exhibit A hereto (a “**Put Escrow Receipt**”), (B) call underlying interest deposits as set forth in section 4 hereof (a “**Call Underlying Interest Deposit**”), and (C) futures underlying interest deposits as set forth in section 5 hereof (a “**Futures Underlying Interest Deposit**”) (collectively, “**Depository Receipt(s)**”), and (iii) the Specific Deposits will be released on demand by the Approved Depository in favour of CDCC in the case of Put Escrow Receipts on presentation of put payment order(s) in the form of Exhibit B hereto (a “**Put Payment Order**”);

NOW THEREFORE, the Parties have agreed as follows:

1. REPRESENTATIONS OF THE APPROVED DEPOSITORY

The Approved Depository makes the following representations, which are deemed repeated upon the issuance of each Depository Receipt:

- (A) The Approved Depository is (i) a trust company to which the *Trust and Loan Companies Act* (Canada) applies or subject to the *Loan and Trust Corporations Act* (Ontario) or *An Act Respecting Trust Companies and Savings Companies* (Quebec) or equivalent legislation of other provinces of Canada, or (ii) such other institution as CDCC may, in its sole discretion, approve from time to time;
- (B) The Approved Depository has a minimum capital of \$25,000,000, for which current audited financial statements are available;
- (C) The Approved Depository has entered into an agreement with the Customer(s) wishing to make Specific Deposits to be held by the Approved Depository in trust for CDCC (in the case of Put Escrow Receipts) or pledged to CDCC through a Central Securities Depository (in the case of Call Underlying Interest Deposits and Futures Underlying Interest Deposits) in lieu of meeting

margin requirements with respect to certain Short Positions, which agreement clearly sets forth the conditions under which the Approved Depository will handle Specific Deposits, issue Depository Receipts and honour CDCC's demands for release in respect of Put Escrow Receipts, consistent with the terms of this Agreement;

- (D) The Approved Depository holds each Specific Deposit that is the object of a Put Escrow Receipt as custodian for the account of a Customer in trust for CDCC with the express authority from the Customer to act in such capacity in respect of a specific Short Position that is a put option;
- (E) The Approved Depository holds each Specific Deposit that is the object of a Put Escrow Receipt free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in favor of the Approved Depository or any third party;
- (F) The Approved Depository is duly authorized by the Customer to release a Specific Deposit that is the object of a Put Escrow Receipt in favor of CDCC in accordance with the terms of this Agreement.
- (G) The Approved Depository pledges on behalf of a Customer each Specific Deposit that is the object of a Call Underlying Interest Deposit to CDCC through a Central Securities Depository with the express authority from the Customer to effect such pledge of the relevant underlying securities in respect of a specific Short Position that is a call option;
- (H) The Approved Depository pledges on behalf of a Customer each Specific Deposit that is the object of a Call Underlying Interest Deposit free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in favor of the Approved Depository or any third party;
- (I) The Approved Depository pledges on behalf of a Customer each Specific Deposit that is the object of a Futures Underlying Interest Deposit to CDCC through a Central Securities Depository with the express authority from the Customer to effect such pledge of the relevant underlying securities in respect of a specific Short Position that is a future; and
- (J) The Approved Depository pledges on behalf of a Customer each Specific Deposit that is the object of a Futures Underlying Interest Deposit free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in favor of the Approved Depository or any third party.

2. DEPOSITORY SERVICES

The Approved Depository shall treat Specific Deposits as follows:

- (A) Upon the instruction of the Customer, subject to conditions agreed between the Approved Depository and the Customer, the Approved Depository shall receive Specific Deposits from the Customer and issue Depository Receipts with respect to the Specific Deposits, either by certifying to CDCC that it is held in trust for CDCC and undertaking to honour CDCC's demand for payment in the form of a Put Escrow Receipt or by transferring it to CDCC through a Central Securities Depository in the form of a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit, as the case may be, in accordance with the terms of this Agreement.
- (B) Once a Depository Receipt has been issued by the Approved Depository to CDCC in respect of a Short Position, the Customer may not withdraw or otherwise affect the Specific Deposit, except with CDCC's express written consent thereto, until it is released by CDCC upon (i) the

discharge of the relevant underlying payment or delivery obligation by the Customer, or (ii) the expiry of the Depository Receipt ten Business Days after the Expiry Date or the Delivery Date, as the case may be, of the Short Position, whichever is earlier.

- (C) The Approved Depository acknowledges and agrees that it is not entitled to any fees or compensation from CDCC for its services hereunder and that it will receive any such fees and compensation for such services from the Customer(s) as agreed with such persons from time to time.

3. PUT ESCROW RECEIPTS

By issuing a Put Escrow Receipt in the form of Exhibit A hereof, the Approved Depository acknowledges, represents and agrees as follows:

- (A) The Customer identified in the Put Escrow Receipt, being the writer of a Put Short Position, has deposited an amount of cash equivalent to the aggregate exercise price of the Put Short Position with the Approved Depository which constitutes a Specific Deposit;
- (B) The Customer has instructed the Approved Depository to issue a Put Escrow Receipt in favor of CDCC with respect to such Specific Deposit, in consideration of being released from having to post any margin requirement with respect to the relevant Put Short Position in accordance with the Rules of CDCC;
- (C) The Specific Deposit is held in trust for CDCC as collateral for the relevant Put Short Position free from any lien or encumbrance other than CDCC's first priority security interest thereon; and
- (D) Upon receipt of a Put Payment Order in the form of Exhibit B hereof issued by CDCC pursuant to a Put Escrow Receipt, the Approved Depository will release the Specific Deposit in whole by transfer of funds within two hours if the demand is made before 3:00 pm or on the next business day before 9:00 am if the demand is made after 3:00 pm.

4. CALL UNDERLYING INTEREST DEPOSITS

By transferring a Specific Deposit in the form of securities as collateral for a specific Call Short Position from the Approved Depository to CDCC through a Central Securities Depository, the Approved Depository is deemed to have issued a Call Underlying Interest Deposit, whereby the Approved Depository acknowledges, represents and agrees as follows:

- (A) The Customer, being the writer of the Call Short Position, has deposited the quantity of the underlying securities specified in the Call Short Position with the Approved Depository which constitutes a Specific Deposit;
- (B) The Customer has instructed the Approved Depository to pledge to CDCC through a Central Securities Depository the Specific Deposit, in consideration of being released from having to post any margin requirement with respect to the relevant Call Short Position in accordance with the Rules of CDCC;
- (C) The Specific Deposit is pledged to CDCC as collateral for the relevant Call Short Position giving CDCC a first priority security interest thereon, free from any other lien or encumbrance; and

- (D) Upon the delivery obligation of the Customer under the Call Short Position being otherwise duly satisfied on the relevant exercise date, the Specific Deposit shall be released by CDCC and returned to the Approved Depository, unless otherwise instructed by the Customer. In the event that the Customer fails to satisfy such delivery obligation, CDCC shall seize the Specific Deposit to satisfy the Customer's delivery obligation without prior notice by CDCC to the Customer or the Approved Depository, subject to section (2) (B) hereof,

5. FUTURES UNDERLYING INTEREST DEPOSITS

A Futures Underlying Interest Deposit shall be deemed issued by the Approved Depository upon the transfer of a Specific Deposit in the form of securities as collateral for a specific futures short position from the Approved Depository to CDCC through a Central Securities Depository, whereby the Approved Depository acknowledges, represents and agrees as follows:

- (A) The Customer, being the seller of securities under a Futures Short Position, has deposited the quantity of the underlying securities specified in the Futures Short Position with the Approved Depository which constitutes a Specific Deposit;
- (B) The Customer has instructed the Approved Depository to pledge to CDCC through a Central Securities Depository the Specific Deposit, in consideration of being released from having to post any margin requirement with respect to the relevant Futures Short Position in accordance with the Rules of CDCC;
- (C) The Specific Deposit is pledged to CDCC as collateral for the relevant Futures Short Position giving CDCC a first priority security interest thereon, free from any other lien or encumbrance; and
- (D) Upon the delivery obligation of the Customer under the Futures Short Position being otherwise duly satisfied on the relevant delivery date, the Specific Deposit shall be released by CDCC and returned to the Approved Depository, unless otherwise instructed by the Customer. In the event that the Customer fails to satisfy such delivery obligation, CDCC shall seize the Specific Deposit to satisfy the Customer's delivery obligation without prior notice by CDCC to the Customer or the Approved Depository, subject to section (2) (B) hereof.

6. GENERAL AND MISCELLANEOUS

- (A) This Agreement shall be binding upon and enure to the benefit of the Parties and their respective successors and permitted assigns. It may not be assigned by the Approved Depository without the prior written consent of CDCC, which consent shall not be unreasonably withheld.
- (B) This Agreement may be amended only if the Parties hereto so agree in writing.
- (C) This Agreement may be terminated by either party upon 30 days written notice to the other party whereupon any Specific Deposit held by the Approved Depository in trust for CDCC will be dealt with by the Approved Depository in accordance with CDCC's written instructions to it.
- (D) This Agreement constitutes the entire agreement between the Parties to this Agreement with respect to its subject matter and cancels and supersedes any prior understandings and agreements between the parties with respect to such subject matter.

- (E) This Agreement shall be construed, interpreted and enforced in accordance with, and the respective rights and obligations of the Parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein, and each party hereby irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Ontario and all courts competent to hear appeals therefrom.
- (F) This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts shall constitute but one and the same agreement.
- (G) Delivery of an executed signature page to this Agreement by either party by electronic transmission will be as effective as delivery of a manually executed copy of this Agreement by such party.

IN WITNESS WHEREOF this Agreement has been executed as of the date first written above.

**CANADIAN DERIVATIVES CLEARING
CORPORATION (“CDCC”)**

(“Approved Depository”)

By: _____
(Signature of officer)

By: _____
(Signature of officer)

(Please print name)

(Please print name)

(Title)

(Title)

PUT ESCROW RECEIPT

EXHIBIT A

Approved Depository Letterhead
(Branch and Address)

To: **BROKER OF PUT OPTION WRITER and CANADIAN DERIVATIVES CLEARING CORPORATION**

Gentlemen,

RE: Customer	_____	Exercise Price	_____
Expiry Date	_____	Underlying Security	_____
No. of Shares	_____	Aggregate Exercise Price	_____
Clearing Member	_____		

We understand that the Customer has written a Put Option expiring on the Expiry Date pursuant to which he may be obligated to accept delivery from Canadian Derivatives Clearing Corporation (CDCC) of the Underlying Security at the Aggregate Exercise Price at any time after the date hereof up to and including the Expiry Date.

We issue this Put Escrow Receipt pursuant to a duly executed Depository Agreement with CDCC and we hereby certify that:

- (a) the Customer has deposited cash in an amount equal to the Aggregate Exercise Price in respect of the Put Option identified herein for us to hold in trust to your order (the "Specific Deposit");
- (b) we hold and will continue to hold the Specific Deposit free from any liens or encumbrances except CDCC's first priority security interest thereon; and
- (c) we will transfer the Specific Deposit, by payment of the Aggregate Exercise Price to CDCC on demand against delivery by CDCC of the Underlying Security on the date the Exercise Notice is submitted by CDCC within two hours if the demand is made before 3:00 pm or on the next business day before 9:00 am if the demand is made after 3:00 pm.

In connection with the foregoing, we acknowledge and agree that payment will be effected by us as escrow holder against delivery of the Underlying Security by CDCC provided that any demand by CDCC for payment must be in the agreed written form and received by us not later than 3 p.m. local time on the tenth Business Day following the Expiry Date at which time this Put Escrow Receipt will be null and void.

This Put Escrow Receipt is being deposited to serve as Underlying Interest Equivalent for the Put Option identified herein booked in a Client Account maintained by the Clearing Member. This Put Escrow Receipt shall not constitute Margin for another account maintained by the Clearing Member.

Yours truly,

PUT PAYMENT ORDER

EXHIBIT B

CDCC Letterhead

Exercise Date:

Gentlemen,

This Payment Order is submitted by the Canadian Derivatives Clearing Corporation (“we” or “CDCC”) in accordance with the Depository Agreement entered into between CDCC and _____ (“you” or “Approved Depository”) and pursuant to a Put Escrow Receipt, a copy of which is attached hereto.

CDCC hereby certifies that the Put Option Short Position identified in the Put Escrow Receipt has been exercised as of the Exercise Date specified above.

Considering that you hold a Specific Deposit covering this Put Option Short Position, as evidenced by the attached Put Escrow Receipt, we ask that you release it in our favour immediately by paying the Aggregate Exercise Price specified therein to the following account of CDCC:
_____.