



NOTICE TO MEMBERS

No. 2011 – 021

February 15th, 2012

SELF-CERTIFICATION

**NEW PRODUCT
OVERNIGHT INDEX SWAP FUTURES CONTRACTS (OIS)**

ADDITION OF NEW RULE C-22

AMENDMENT TO OPERATIONS MANUAL OF CDCC

Bourse de Montréal Inc. (“**Bourse**”) will launch, on **February 24, 2012**, a new product entitled the “Overnight Index Swap Futures Contracts”(“**OIS Contract**”).

The Board of Directors of the Canadian Derivatives Clearing Corporation (“**CDCC**”) approved the new Rule C-22 and the amendments to the Operations Manual of CDCC (“**Amendments**”) in order to offer clearing services for the OIS Contract. CDCC wishes to advise Clearing Members that such amendments were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

You will find enclosed the amendments which will become effective on **February 16, 2012**. Please note that the new Rule C-22 and the amended version of the Operations Manual of CDCC will be available on CDCC’s web site (www.cdcc.ca).

For any question or clarification, Clearing Members may contact the CDCC Member Services.

Glenn Goucher
President and Chief Clearing Officer

Canadian Derivatives Clearing Corporation

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NEW PRODUCT OVERNIGHT INDEX SWAP FUTURES CONTRACTS (OIS)

ADDITION OF NEW RULE C-22

I. Introduction

Bourse de Montréal Inc. (the Bourse) intends to launch a new derivative product entitled the “Overnight Index Swap Futures Contracts (OIS)”. Canadian Derivatives Clearing Corporation (CDCC) requires a new Rule to accommodate the launch of this new contract.

The Bourse’s analysis document, “New Product - Overnight Index Swap Futures Contracts (OIS)”, is attached to the present to provide the background information necessary to understand the new contract.

II. Rationale

The Bourse is expanding its product coverage of the Canadian short-term interest rate market with the introduction of the Overnight Index Swap futures contracts (OIS) in response to growing market demand for derivative products that more accurately reflect shorter term interest rate exposures.

In the wake of the 2007/2008 financial crisis, activity has soared in the over-the-counter Overnight Index Swap market as CDOR-based instruments (Canadian Dealer Offered Rate) often did not capture movements in policy rates as a result of credit-induced widening in CDOR rates. Many factors have fueled the growth in the OIS market. Since the third quarter of 2007 these factors prominently include a jump in the volatility of spreads between the reference overnight rate and CDOR/LIBOR, coupled more recently with a considerable jump in repo trading activity in Canada.

In fact since 2007, notional amounts outstanding of over-the-counter interest rate derivatives (Swaps and FRAs) maturing in less than 1 year have grown 20 percent per annum.

III. Proposed Regulatory Amendments

CDCC proposes to add a new Rule C-22, Overnight Index Swap Futures Contracts (OIS) with Cash Settlement to accommodate the clearing of these new futures contracts.

1 – Sections

A new Rule is required to allow clearing of Overnight Index Swap Futures Contracts (OIS) with Cash Settlement. Sections C-2201 to C-2205 have been created to allow the clearing provisions applicable to Overnight Index Swap Futures Contracts (OIS) with Cash Settlement:

- Section C-2201 defines certain expressions which are specific to to Overnight Index Swap Futures Contracts (OIS) with Cash Settlement as well as the calculation formula for the pertinent settlement amounts.
- Section C-2202 establishes the settlement mechanism.
- Since there is no physical settlement, section C-2203 excludes the application of Rule C-5 for this product.
- Section C-2204 establishes the actions that CDCC may undertake in situations where the Overnight Repo Rate Index is changed or discontinued.
- Section C-2205 establishes the actions that CDCC may undertake in situations where the current value of the Overnight Repo Rate Index is unavailable or inaccurate.

2 – Applicable Terms & Conditions:

The following describes the main terms and conditions applicable to the clearing of this contract:

Terms and conditions for margin requirements:

The margin requirements by contract are revised monthly by CDCC based on historical volatility. The determination of the margin interval will follow our actual risk methodology procedure. In order to do so, we will apply proper risk parameters to be covered 99% of the time at the inception of the contract and we will review the parameters from time to time. Since there is no trading history for Overnight Index Swap Futures Contracts (OIS), initially this margin requirement will be calculated based on the daily price return of the underlying market (Overnight Repo Rate) which is strongly correlated with the futures prices. The regular method to calculate the margin interval will be applied as soon as the Corporation deems it has sufficient historical data.

Going forward, any Overnight Index Swap Futures Contracts (OIS) with cash settlement will be subject to the same updates on margin parameters as the one applicable to all futures contracts.

Terms and conditions for cash settlement

Overnight Index Swap Futures Contracts (OIS) will be cash-settled at 100 minus the Compounded Overnight Repo Rate over the period of the Contract Month as determined by the Bourse. The Bourse shall publish and report to the CDCC the final settlement price on the first business day following the last day of trading of the contract month.

3 – Modifications to Risk Manual

There will be no modifications to the Risk Manual

4 – Modifications to the Operations Manual

CDCC identified the necessity to update its current Operations Manual applicable to Overnight Index Swap Futures. CDCC proposes to add to subsection *Submission of Tender Notices of Section 6 Exercises, Tenders, Assignments and Deliveries* of the Operations Manual an explicit mention of Overnight Index Swap Futures.

IV. Objective of the Proposed Amendments to the Rules of the CDCC

The objectives of the proposed addition of Sections C-2201 to 2205, Rule C-22 Overnight Index Swap Futures Contracts (OIS) with cash settlement, are to:

- i) Allow the clearing of Overnight Index Swap Futures Contracts (OIS) with cash settlement; and
- ii) Establish the terms for clearing of Overnight Index Swap Futures Contracts (OIS) with cash settlement.

V. Public Interest

The additions to the Rules of CDCC are proposed in order to make possible the clearing of Overnight Index Swap Futures Contracts (OIS) with cash settlement.

VI. Process

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

VII. References

Documents Attached

- Rule C-22 of CDCC: Overnight Index Swap Futures (OIS).
- Amended Operations Manual of CDCC.
- The Bourse's analysis document: "New Product - Overnight Index Swap Futures Contracts (OIS)".
- Specifications for the Overnight Index Swap futures contracts

Sources

- NYSE LIFFE Exchange Delivery Settlement Price (EDSP) Algorithm for **Eonia® Swap Index Future**
<http://globalderivatives.nyx.com/en/stirs-nyse-liffe-newfeatured-products-eonia-pricing-and-edsp>
- LIFFE Exchange Contract Terms for **Eonia® Swap Index Future**
<http://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/352482.pdf>
- ISDA
http://www.isda.org/c_and_a/pdf/Supplement-8-to-the-2000Definitions-CAD-OIS.pdf

**RULE C-22 OVERNIGHT INDEX SWAP FUTURES
(SYMBOL - OIS)**

The Sections of this Rule C-22 are applicable only to Futures settling on a future date where the Underlying Interest is the Compounded Overnight Repo Rate over the period of the Contract Month

Section C-2201 Definitions

Notwithstanding Section A-102, for the purposes of the Overnight Index Swap Futures Contracts, the following terms are as defined:

- “Final Settlement Price” the Final Settlement Price shall be determined by the Exchange and will be equal to the Overnight Repo Rate Index calculated over the period of the Contract Month. The Final Settlement Price is rounded to the nearest 1/10th of one basis point (0.001). In the case a decimal fraction ends with 0.0005 or higher, the Final Settlement Price shall be rounded up. The Final Settlement Price is determined on the first business day following the last day of trading.
- “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 Index” 100 minus the Compounded Overnight Repo Rate
- “Compounded Overnight Repo Rate”

The Compounded Overnight Repo Rate is the rate of return of a daily compound interest investment at the Overnight Repo Rate. It is calculated in accordance with the following formula:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{ORR_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d} \times 100$$

where:

“ d_o ”, the number of Business Days in the calculation period;

“ i ” is a series of whole numbers from one to d_o , each representing the relevant Business Day in chronological order from, and including, the first Business Day in the relevant Calculation Period;

ORR_i = Overnight Repo Rate on the i^{th} day of the calculation period (if the i^{th} day is not a business day, the previous available Overnight Repo Rate is used);

“ n_i ” is the number of calendar days in the relevant Calculation Period on which the rate is ORR_i ;

“ d ” is the number of calendar days in the relevant Calculation Period.

“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 by the Bank of Canada.
“Underlying Interest”	the Compounded Overnight Repo Rate quoted in terms of an Overnight Repo Rate Index.
“Contract Month”	the period that begins the day following the last Bank of Canada Fixed Announcement Date to the day of the next Bank of Canada Fixed Announcement Date.
“Fixed Announcement Date”	the pre-specified date on which the Bank of Canada announces their decision on the target for the Overnight Repo Rate

Section C-2202 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-2203 Tender Notices

Rule C-5 shall not apply to Overnight Index Swap Futures as they are cash-settled.

Section C-2204 Adjustments

No adjustments will ordinarily be made in the terms of the Overnight Index Swap 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 Index Swap 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-2205 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for any series of Overnight Index Swap 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.



**CANADIAN DERIVATIVES CLEARING CORPORATION
CORPORATION CANADIENNE DE COMPENSATION DE PRODUITS DÉRIVÉS**

OPERATIONS MANUAL

VERSION OF FEBRUARY ~~16~~¹⁰, 2012



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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 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 Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit which are accepted by CDCC as Underlying Interest Equivalent to cover a specific Short 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 Underlying Interest of an Option that has not been settled at the Central Securities Depository.

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 7:00 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 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 in respect of any Pending Settlement Requirements (Afternoon Net DVP Settlement Requirements sent to CDS for settlement by End of Day DVP Settlement Time)	2:00 to 2:15 p.m.
Cash Deposits (Margin Deposits) – under \$2,000,000 (same day deposit)	2:45 p.m.
Cash Deposits (Margin Deposits) – of and over \$2,000,000 (2 Business Days notice)	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.
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.



Section: 2 - 3

TIME FRAMES

Open Position changes	5:30 p.m.
Fixed Income Transactions and Futures contracts on Acceptable Securities – 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 Net Settlement Delivery Status Report	Status of Clearing Member's settlement activity at the Central Securities Depository 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 Position Report	Lists the Clearing Member's Repurchase Transactions accepted for clearing by CDCC.
MP71	Fixed Income Repo Conversion Position Report	Lists all of the Clearing Member's Repurchase Transactions that have progressed from Forward Repurchase Transactions to Running Repurchase Transactions on that day.
MP73	Fixed Income Running Repo Open Positions Report	Lists all of the Clearing Member's Running Repurchase Transactions as of that day.
MP75	Fixed Income Forward Net Settlement Positions Report	Lists all of the Clearing Member's forward Net Settlement Positions obligations.
MP79	Daily Repo Rate Mark to Market Report	Lists the Clearing Member's MTM Repo Rate Payments, OCF MTM Payments and Net MTM Reversal Requirement for that day.
MR05	OTCI (Converge) Position Limits Usage Report	Lists Clearing Member's percentage of OTCI (Converge) 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	Lists all of the Clearing Member's Fixed Income Transactions

CDCC - REPORTS

	Position Activity Report	activities that contribute to its Net Settlement Position.
MS75	Fixed Income End of Day Settlement Instruction Report	Detail of Clearing Member's net settlement instructions to be sent to the Central Securities Depository after Netting Cut-Off Time.
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 Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions novated to CDCC in accordance with the CDCC Clearing Application.
MT71	Fixed Income CSD Novated Trades Report	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.
MT73	Fixed Income Trade Rejection Report	Lists details of Clearing Member's daily Fixed Income Transactions that were rejected (DK) by CDCC or by the Clearing Member itself.
MT74	Fixed Income Not-Novated Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions that were not novated to CDCC, including all rejected and orphaned trades.
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
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.

CDCC - REPORTS

MB01	Monthly Clearing Fees Invoice	This report contains 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.
MB02	Monthly Clearing Fees Details Report	This report contains 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.
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.
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.
OTCI Expiry:		
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.
Business Day following Expiry:		
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 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 Report (MT71).

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 (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 (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.
2. 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.

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 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, the Clearing Member's Long Position is immediately reduced by the number of Option Open Positions 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, [OIS](#) 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 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 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 Transactions and Futures Contracts on an Acceptable Security net settlement records

For Forward 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 settlement 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.

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.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

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 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, CDCC shall cancel previously issued Pending Payment Against Delivery Requirements and replace them by Morning Net Payment Against Delivery Requirements by Clearing Member (as specified in the above section entitled "Morning net DVP settlement process").

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 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 will failed or partially deliver 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 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 to the charges which are levied on CDCC for the usage of the CDCC Daylight Credit Facility as a result of this Failed Payment Against Delivery. If the Clearing Member still does not have sufficient funds in its cash account at the Central Securities Depository to settle the relevant Morning Net Payment Against Delivery Requirement, or 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 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 shall be required to pay to CDCC any charges which are levied on CDCC for the overnight financing of this Failed Payment Against Delivery, 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.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

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 than 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 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 Business Day.

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.

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 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 as a separate pay figure and 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.



NEW PRODUCT OVERNIGHT INDEX SWAP FUTURES CONTRACTS (OIS)

Addition of new articles to Rule Fifteen (Sections 15998.1 – 15999.3, Overnight Index Swap Futures)

Amendments to articles 6801, 6802, 6803, 6804, 6807, 6808 and 6812 of Rule Six

Modifications to the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions, the Procedures Applicable to the Execution of Block Trades, the Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts, and the Procedures for the Cancellation of Trades

Introduction

Bourse de Montréal Inc. (the Bourse) intends to launch a new derivative product entitled the “Overnight Index Swap Futures Contracts” (OIS). The OIS contract is a short-term interest rate futures contract that complements a similar contract that is currently listed at the Bourse – the 30-day Overnight Repo Rate futures contract (ONX). However, one of the OIS contract’s distinguishing feature compared to the ONX contract is that it is referenced to the Bank of Canada Fixed Announcement Dates (FADs), enhancing hedging and exposure opportunities for short-term money market traders, Government of Canada bond desks and cash managers.

I. Proposed Regulatory Amendments

The Bourse proposes to add new articles 15998.1 – 15999.3 to Rule Fifteen and to amend articles 6801, 6802, 6803, 6804, 6807, 6808 and 6812 of Rule Six. In addition, the Bourse proposes amending the following procedures:

- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions
- Procedures Applicable to the Execution of Block Trades
- Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts
- Procedures for the Cancellation of Trades

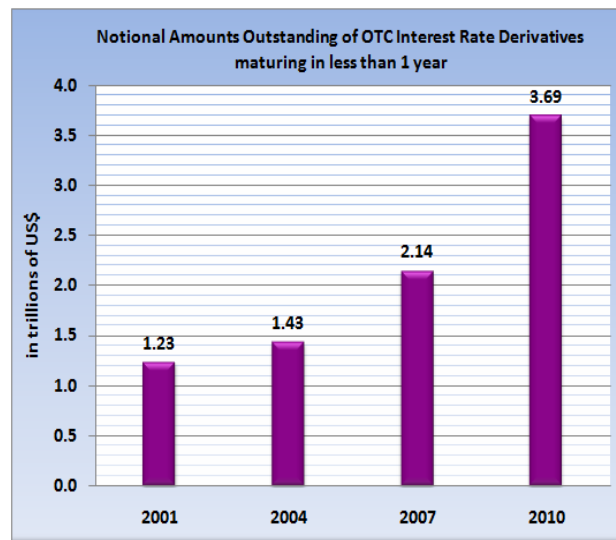
All these additions and amendments to the Rules and Procedures will facilitate the listing and trading of the OIS contract on the Bourse’s electronic trading platform.

II. Rationale

The Bourse is expanding its product coverage of the Canadian short-term interest rate market with the introduction of the Overnight Index Swap futures contracts (OIS) in response to growing market demand for derivative products that more accurately reflect shorter term interest rate exposures.

In the wake of the 2007/2008 financial crisis, activity has soared in the over-the-counter Overnight Index Swap market as CDOR-based instruments (Canadian Dealer Offered Rate) often did not capture movements in policy rates as a result of credit-induced widening in CDOR rates. Many factors have fueled the growth in the OIS market. Since the third quarter of 2007 these factors prominently include a jump in the volatility of spreads between the reference overnight rate and CDOR/LIBOR, coupled more recently with a considerable jump in repo trading activity in Canada.

In fact since 2007, notional amounts outstanding of over-the-counter interest rate derivatives (Swaps and FRAs) maturing in less than 1 year have grown 20 percent per annum.



Source: Bank of Canada

Hence, the Bourse is meeting the evolving market demand with the introduction of the OIS futures contract to offer market participants enhanced hedging and exposure opportunities for money market trading.

In the Canadian OIS market, the reference rate is the Overnight Repo Rate Average (CORRA) reported by the Bank of Canada¹. CORRA is a weighted average rate of overnight collateralized repo trades that occur on the screens of inter-dealer brokers on a specified date as reported to the Bank of Canada.

▪ Rationale for the Overnight Index Swap Futures Contract:

OVERNIGHT INDEX SWAP FUTURES CONTRACT

Rationale for Product	Uses	Market Participants
<ul style="list-style-type: none"> ▪ Product provides a better measure for the direction of the Bank of Canada's future policy rate changes ▪ Market trades OIS to reflect Bank of Canada fixed announcement dates to fixed announcement dates (FADs) ▪ More precise hedge for OIS as it uses a geometric average of the CORRA to reflect OIS market convention ▪ More reflective of market conditions – unlike CDOR and LIBOR based products, the underlying index for OIS is based on traded rates rather than a poll 	<ul style="list-style-type: none"> ▪ Market participants predominantly use OIS market for hedging activities, which are often related to risk management (hedge swap books and repo transactions) ▪ Participants use OIS to hedge either their funding costs or their exposure to short-term interest rate movements ▪ OIS can also be used to alter the term structure (duration) of a portfolio ▪ Market participants may use OIS to speculate on the future path of the Bank of Canada's target overnight rate (Overnight index swaps provide a gauge of what the overnight rate is expected to average over a given period) 	<ul style="list-style-type: none"> ▪ Participants include a broad array of financial entities: banks, investment dealers, inter-dealer brokers, corporations, investment funds (CTA's and hedge funds), pension funds, insurance companies and trust companies. ▪ Commercial banks and investment dealers are the largest borrowers and lenders of funds in the overnight market, primarily because of their market making activities in a wide variety of financial assets which require them to hold inventories of financial securities financed largely by borrowing in the overnight market.

¹ <http://www.bankofcanada.ca/rates/interest-rates/money-market-yields/>

III. Detailed Analysis

A. The Overnight Market

Major financial market participants in Canada with a temporary surplus or shortage of funds use the overnight market to lend or borrow funds among themselves until the next business day. The interest rate at which these transactions occur is referred to as the overnight rate and it is through its influence on the level of this rate that the Bank of Canada implements monetary policy. This is done by setting a target level for the overnight rate, often referred to as the Bank of Canada's key interest rate or policy rate.

Hence, the overnight market is an active forum for trading short-term funds that provides flexibility in cash management for both lenders and borrowers of funds, and the level of interest rates in the overnight market has always been closely linked to the Bank of Canada's monetary policy operations.

The Overnight market in Canada is characterized in large part as follows:

- Overnight Index Swap market;
- Market for wholesale deposits; and
- Collateralized transactions (repo market)

However, the success of the Overnight market has been primarily driven by the explosive growth of the Overnight Index Swap segment. The most actively traded product in the over-the-counter Overnight market is an Overnight Index Swap (OIS). An OIS is an over-the-counter derivative in which two parties agree to exchange, or swap, for an agreed period, a fixed interest rate determined at the time of the trade for a floating rate that will vary over time based on a published overnight index. In this regard, Overnight Index Swap contracts are similar to traditional fixed-for-floating interest rate swaps. *The distinguishing feature of the Overnight Index Swap is that the Canadian Overnight Repo Rate Average (CORRA) over the period of the swap is the reference rate for floating leg of the swap. Specifically, the practice in the OIS market is to use the compounded rate of return of the daily CORRA, expressed as an average over the number of days in the swap.*

Market participants predominantly use the Overnight Index Swap market for hedging activities, which are often related to risk management. Specifically, participants can use the Overnight Index Swap to hedge either their funding costs or their exposure to short-term interest rate movements. The Overnight Index Swap market can be used as well to alter the term structure of a portfolio or for taking a speculative position on the future path of the Bank of Canada's target overnight rate.

Market Size

The Canadian overnight index swap market has grown considerably since it was introduced in March 1999. Although it is difficult to determine the market's exact size, information obtained from dealers suggest that the notional principal amount outstanding has soared from between \$40 billion to \$100 billion in the spring of 2007 to between \$750 billion to \$1 trillion in the spring of 2011. This makes the overnight index swap market the largest segment of the money market, ahead of such money market instruments as Commercial Paper, Bankers' Acceptances and Government of Canada Treasury Bills, which have outstanding amounts of around \$52 billion, \$50 billion and \$167 billion, respectively. The overnight index swap market is larger as well compared to the market for futures contracts on Bankers' Acceptances which have an open interest of around \$620 billion (June 2011).

Market Overview

The OIS market is highly customizable with terms that can cover any set of dates. Typically, the terms to maturity for OIS range from one week to one year, with the majority of trading and quotes concentrated in relatively short and standardized maturities of three months or less. In fact, there is considerable trading activity in the OIS market for terms that span one Bank of Canada Fixed Announcement Date (FADs) to

another, and there is an increase in trading as well as a result of repo transactions that mature on, or close to FADs.

In regard to market quality and liquidity, the bid/ask spreads for OIS are generally 1 to 2 basis points (bps) for swaps of three months or less, 2 to 3 bps for swaps of six months, and three to five bps for longer-term swaps. However, bid/ask spreads can vary from day to day, depending on market conditions. The more common factors that affect spreads include the predictability and consistency of the CORRA and the relative level of uncertainty about future changes in the target overnight rate by the Bank of Canada.

The standard quote sizes for an OIS tend to be between \$25 million and \$125 million, with the \$125 million applying to contracts up to three months and the \$25 million applying to longer contracts. However, the average trade size of actual transactions tends to be between \$200 and \$300 million in the 1-month area, and \$50 to \$100 million for longer dated contracts - amounts that are significantly larger compared to the standard quotes. Market depth and liquidity is quite good and it is not uncommon to see large sized transactions for over \$1 billion in the 1-month area and several hundred million dollars for other swap terms on a daily basis.

Market Participants

Participants in the overnight index swap market include a broad array of financial entities: banks, investment dealers, inter-dealer brokers, corporations, investment funds (including hedge funds), pension funds, insurance companies, trust companies, finance companies, government agencies, and the Government of Canada. Over the past decade, the range of participants has not changed dramatically. However, their relative importance has changed somewhat, with institutional investors in general playing a modestly larger role in this market.

Commercial banks and investment dealers remain the largest borrowers and lenders of funds in the overnight market, primarily because of their market making activities in a wide variety of financial assets (e.g., stocks and bonds), which require them to hold inventories of financial securities financed largely by borrowing in the overnight market. Other participants, such as asset managers (including hedge fund managers) and sophisticated investors, also use the overnight market to finance their market positions.

Financial institutions are the main providers of liquidity in the overnight market and are usually willing to provide quotes for both borrowing and lending overnight funds to their clients and other financial institutions.

IV. Proposed product

A. OIS Futures Contract

The proposed Overnight Index Swap (OIS) futures contract is designed following consultation with market participants active in the OIS market. The details of the contract specifications of the proposed OIS futures contract are included in Appendix I.

Essentially, the price of the OIS futures contract represents the market's expectation of the Canadian Overnight Repo Rate Average (CORRA), compounded daily, over the period of the futures contract.

▪ Contract Design

The OIS contract is similar to the 30-day Overnight Repo Rate futures contract (ONX) currently listed by the Bourse, however, *there are two major differences:*

- ⇒ **Calculation Period:** The OIS contract reflects the CORRA *calculated over the period of the contract month that begins the day following the last Bank of Canada Fixed Announcement Date to the day of the next Bank of Canada Fixed Announcement Date (FAD date to FAD date which is typically on average 45 calendar days)*. Whereas, the ONX contract reflects the CORRA calculated over the number of calendar days in the contract month (which is typically on average 30 days).

- ⇒ **Calculation of the CORRA:** The OIS contract reflects the *compounded rate of return of the daily overnight repo rate (CORRA), expressed as an average (geometric average) over a period.* Whereas, the ONX contract reflects the simple average rate of return of the CORRA over a period.

Hence, the proposed OIS futures contract, rather than being referenced to calendar months - as per the ONX futures contract - has an accrual period in line with the Bank of Canada Fixed Announcement Dates (FADs), to reflect the practice of the Overnight Index Swaps market – the largest segment of the Overnight market in Canada.

In fact, the Bank of Canada's framework for the FADs consists of 8 pre-specified dates per year on which policy rate decisions are announced². The number of days between FADs varies from 40 to 51 days – with an average of about 45 days.

CONTRACT SPECIFICATIONS – SALIENT FEATURES

	Current ONX Futures (30-day Overnight Repo Rate Futures Contract)	Proposed OIS Futures (Overnight Index Swap Futures Contract)
Contract Size	5 000 000\$	5 000 000\$
Settlement Method	Cash Settlement 100 minus the simple average (arithmetic) of the daily overnight repo rate (CORRA) for the period	Cash Settlement 100 minus the compounded average (geometric) of the daily overnight repo rate (CORRA) for the period
Tick Size	0.005 = C\$20.55 (one-half of 1/100 of one percent of C\$5,000,000 on a 30/365 day basis)	0.001 = C\$6.25 (one-tenth of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis)
Final Settlement Price Calculation	<ul style="list-style-type: none"> ▪ The contract is cash settled against the monthly average of the daily overnight repo rate for the contract month. ▪ The daily overnight repo rate (CORRA) is calculated and reported by the Bank of Canada. ▪ The monthly average is a simple arithmetic average corresponding to the sum of the daily overnight repo rates divided by the number of calendar days in the month. 	<ul style="list-style-type: none"> ▪ The contract is cash settled against the compounded average of the daily overnight repo rate for the contract month. ▪ The daily overnight repo rate (CORRA) is calculated and reported by the Bank of Canada. ▪ The average is the compounded daily overnight repo rate over the period of the contract that begins the day following the last Bank of Canada Fixed Announcement Date to the day of the next Bank of Canada Fixed Announcement Date. (FAD date to FAD date)
Contract Expirations	12 contract expirations per year (monthly)	Contract expirations to match the published Bank of Canada Fixed Announcement Dates

B. Potential Users of the OIS Contract

- Traders who have an underlying need for cash in the near term that use near dated short-term interest rate futures contract to hedge:
 - ⇒ Swap traders
 - ⇒ Repo traders
 - ⇒ T-Bill traders
 - ⇒ Bond Desks

² <http://www.bankofcanada.ca/monetary-policy-introduction/key-interest-rate/schedule/>

- Speculators, proprietary traders, algorithmic traders and hedge funds to manage directional trading, and to trade the spread between OIS and CDOR/LIBOR (credit spread).

V. Summary of the Proposed Amendments to the Rules of the Bourse

The current Rules of the Bourse do not allow for the listing of the Overnight Index Swap futures contract (OIS). Consequently, amendments and additions to Rules Six and Fifteen of the Bourse are necessary to allow for the listing of the contract. In addition, the Bourse proposes to amend the following procedures: the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions, the Procedures Applicable to the Execution of Block Trades, the Daily Settlement Price Procedures for futures contracts and Options on Futures Contracts, and the Procedures for the Cancellation of Trades.

A – Articles 6801, 6802, 6803, 6804, 6807, 6808 and 6812 of Rule Six

It is proposed to amend articles 6801, 6802, 6803, 6804, 6807, 6808 and 6812 of Rule Six of the Bourse in order to add the trading specifications of the OIS contract.

B – Articles 15998.1 to 15999.3 of Rule Fifteen

It is proposed to add articles 15998.1 to 15998.9 and 15999.1 to 15999.3 to Rule Fifteen of the Bourse in order to add specific trading and settlement provisions applicable to the OIS contract.

C- Procedures Applicable to the Execution of Cross Transactions and Prearranged Transactions

The Bourse proposes that the Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions (PCPT) be amended to include the OIS contract. The PCPT is amended so that the prescribed exposure time delays which must occur at or between the current best bid and the current best offer available in the electronic system of the Bourse and the minimum quantity thresholds for futures contracts on the OIS contract be established in accordance with the requirements of article 6380 of the Bourse's Rules. The prescribed time delay for the OIS contract will be set at 5 seconds with no minimum quantity threshold – in accordance with the established exposure time delays and minimum quantity threshold for interest rate futures contracts.

D- Procedures Applicable to the Execution of Block Trades

The Bourse proposes that the Procedures Applicable to the Execution of Block Trades (PAEBT) be amended to include the OIS contract. It is proposed that the PAEBT be amended such that the prescribed time delay to report a block trade to the Bourse and the minimum quantity threshold for the OIS contract is established in accordance with article 6380 of the Bourse's Rules.

The prescribed time delay to report block trades to the Bourse for OIS futures contracts will be set at 15 minutes, in accordance with the established prescribed time delay for all permissible futures contracts on the list identified in the procedures applicable to the execution of block trades.

To reflect large sized transactions that take place in the over-the-counter OIS market, it is proposed to establish the minimum threshold quantity for a block trade for the OIS contract at 200 contracts (a notional amount of \$1 billion). The minimum threshold quantity for a block trade may be re-evaluated, based on accumulated trading history, and adjusted if necessary.

E- Daily Settlement Price Procedures of Futures Contracts and Options on Futures Contracts

The Bourse proposes to amend the Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts (DSPP) so that the requirements related to the daily settlement prices of the OIS contract are established in accordance with article 6390 of the Bourse's Rules.

Similarly to the 30-day overnight repo rate futures contract (ONX), it is proposed to establish the closing range of the OIS contract at 3 minutes. The closing range may be re-evaluated periodically, based on accumulated trading history, and adjusted if necessary.

Based on the requirements of article 6390 and of the DSPP, OIS futures contracts have been integrated in the section 4.8 of the DSPP. Hence, the settlement price shall be the weighted average of all traded prices during the closing range. The closing range is defined as the last 3 minutes of the trading session for all OIS futures contracts.

F- Procedures for the Cancellation of Trades

To protect the integrity of the market and to ensure that input errors can be corrected when a transaction outside the no cancel range is identified by the Bourse's market supervisors, the current Bourse error policy shall be adopted for all OIS futures contracts.

In order to minimize the impact for all market participants, the no cancel range must be set wide enough so that it captures exceptional situations such as when a trade is executed at an unrepresentative price or, when a good faith input error occurs.

The Bourse proposes to amend the Procedures for the Cancellation of Trades (PCT) so that the requirements for trade cancellations for OIS futures contracts are established in accordance with articles 6303, 6381, 6382, 6383, 6384 and 6385 of the Bourse's Rules.

Based on the requirements of articles 6303, 6381, 6382, 6383, 6384 and 6385 and of the PCT, OIS futures contracts have been added to the list of derivative instruments.

Similarly to the 30-day overnight repo rate futures contract (ONX), the increment parameter of the PCT for the OIS futures contracts has been established at 5 basis points for outright positions and 5 basis points for strategies positions. The no-cancel range for the OIS futures contracts will apply for all trading sessions.

G- Terms and conditions for margin requirements

The Rules of the Bourse do not specify any amounts regarding margins applicable to futures contracts listed on the Bourse. These margins are revised periodically (at least once a month) by the Bourse based on the margin intervals calculated by CDCC and transmitted to approved participants by means of circular. Bank of Canada Overnight Index Swap futures contracts will be subject to the same updates as the one applicable to all futures contracts.

H- Terms and conditions for position limits

The terms and conditions for the position limits for OIS futures contracts are found in Article 15998.7 of Rule Fifteen. Similarly to the 30-day overnight repo rate futures contract (ONX), the Bourse recommends that the position limit for the OIS contract should be established at 5,000 contracts for speculators, and 7,000 contracts for hedgers.

I- Terms and conditions for reporting level

The terms and conditions for the reporting level of OIS futures contracts are found in Article 15978 of Rule Fifteen. The Bourse recommends that approved participants must report, no later than three business days following the last business day of each week, any gross long or gross short position in excess of 300 contracts in the case of OIS futures contracts.

VI. Objective of the Proposed Amendments to the Rules of the Bourse

The objectives of the proposed amendments to articles 6801, 6802, 6803, 6804, 6807, 6808 and 6812 of Rule Six as well as to the relative Procedures (as described above) and of the addition of articles 15998.1 – 15998.9 and 15999.1 – 15999.3 to Rule Fifteen are to:

- ⇒ Allow the introduction of Overnight Index Swap futures contracts; and
- ⇒ Establish the specifications of Overnight Index Swap futures contracts.

VII. Public Interest

The amendments and additions to the Rules of the Bourse are proposed in order to make the use of Overnight Index Swap futures contracts accessible and efficient for the market participants who have expressed their support for such contracts.

VIII. Process

The proposed amendments to Rules Six and Fifteen of the Bourse as well as to the procedures are submitted to the Rules and Policies Committee of the Bourse for approval and will then be submitted to the Autorité des marchés financiers (AMF) for self-certification purposes. These modifications will be transmitted as well to the Ontario Securities Commission (OSC) for information.

IX. Documents Attached

- Specifications for the Overnight Index Swap futures contracts
- Rule Six of Bourse de Montréal Inc.: amendments to articles 6801, 6802, 6803, 6804, 6807, 6808, and 6812
- Rule Fifteen of Bourse de Montréal Inc.: addition of new sections 15998.1 to 15998.9 and 15999.1 to 15999.3
- Procedures Applicable to the Execution of Cross Transactions and the Execution of Prearranged Transactions
- Procedures Applicable to the Execution of Block Trades
- Daily Settlement Price Procedures for Futures Contracts and Options on Futures Contracts
- Procedures for the Cancellation of Trades

OIS – Overnight Index Swap Futures

Trading Unit	Each contract shall be for a nominal value of C\$5,000,000.
Underlying	The compounded daily overnight repo rate (CORRA) quoted in terms of an overnight repo rate index.
Fixed Rate and Floating Rate of the Swap	Fixed for floating interest rate swap where a fixed rate is swapped against a floating rate. The floating rate is the compounded daily overnight repo rate (CORRA) over the period of the contract month.
Contract Months	Contract months will be listed to match the Bank of Canada's schedule of Fixed Announcement Dates.
Price Quotation	<p>Index: 100 – R</p> <p>R = the compounded daily overnight repo rate (CORRA) for the contract month. It is calculated in accordance with the following formula:</p> $R = \left[\prod_{i=1}^{d_o} \left(1 + \frac{ORR_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d} \times 100$ <p>where:</p> <p>“d_o”, the number of Business Days in the calculation period;</p> <p>“i” is a series of whole numbers from one to d_o, each representing the relevant Business Day in chronological order from, and including, the first Business Day in the relevant Calculation Period;</p> <p>ORR_i = Overnight Repo Rate (CORRA) on the i^{th} day of the calculation period (if the i^{th} day is not a business day, the previous available CORRA is used);</p> <p>“n_i” is the number of calendar days in the relevant Calculation Period on which the rate is ORR_i;</p> <p>“d” is the number of calendar days in the relevant Calculation Period.</p>
Last Trading Day	The day of a Bank of Canada Fixed Announcement Date.
Contract Type	Cash settlement.
Minimum Price Fluctuation	0.001 = C\$6.25 (one-tenth of 1/100 of one percent of C\$5,000,000 on a 45.625/365 day basis).
Reporting Limit	300 contracts.

Position Limits	Information on position limits can be obtained from the Exchange as they are subject to periodical changes.
Final Settlement Price	<p>The final settlement price shall be determined by the Bourse and shall be equal to 100 minus the compounded daily overnight repo rate (CORRA) expressed in terms of an overnight repo rate index and calculated over the period of the contract month that begins the day following the last Bank of Canada Fixed Announcement Date to the day of the next Bank of Canada Fixed Announcement Date. Weekend and holiday rates are considered to be the rate applicable on the previous business day for which a rate was reported. For example, Friday's rate is used for Saturday and Sunday rates.</p> <p>The daily overnight repo rate (CORRA) is calculated and reported by the Bank of Canada.</p> <p>The final settlement price is rounded to the nearest 1/10th of one basis point (0.001). In the case a decimal fraction ends with 0.0005 or higher, the final settlement price shall be rounded up</p> <p>The final settlement price is determined on the first business day following the last day of trading.</p>
Minimum Margin Requirements	Information on minimum margin requirements can be obtained from the Exchange as they are subject to periodical changes.
Daily Price Limit	None
Trading Hours (Montréal time)	<p>Early session: 6:00 a.m. to 7:45 a.m. Regular session: 8:00 a.m. to 3:00 p.m. Extended session*: 3:09 p.m. to 4:00 p.m. * There is no extended session on the last trading day of the expiring contract month.</p> <p>Note: During early closing days, the regular session closes at 1:00 p.m., time at which the daily settlement price is established. In those circumstances, the extended session is from 1:09 p.m. to 1:30 p.m.</p>
Clearing Corporation	Canadian Derivatives Clearing Corporation (CDCC).
Ticker Symbol	OIS