



NOTICE TO MEMBERS

No. 2011 – 028

February 28, 2011

REQUEST FOR COMMENTS

NEW PRODUCT: MINI FUTURES CONTRACTS ON THE S&P/TSX 60 INDEX (SXM)

AMENDMENT TO OPERATIONS MANUAL OF CDCC

Summary

Bourse de Montréal Inc. (“**Bourse**”) intends to launch S&P/TSX 60 Index Mini Futures (SXM) which would represent one-quarter of the value of Bourse’s current S&P/TSX 60 Index Futures (SXF).

The Board of Directors of the Canadian Derivatives Clearing Corporation (“**CDCC**”) approved amendments to the Operations Manual of CDCC. The purpose of the proposed amendment is to offer offsetting of opposite positions in SXM and SXF.

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

Process for Changes to the Rules

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

The Board of Directors of CDCC has the power to approve the adoption or amendment of Rules of CDCC. The amendments are submitted to the AMF in accordance with the self-certification process.

Comments on the proposed amendments must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

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

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NEW PRODUCT: MINI FUTURES CONTRACTS ON THE S&P/TSX 60 INDEX (SXM)

AMENDMENT TO OPERATIONS MANUAL OF CDCC

A. Overview

Bourse de Montréal Inc. (“**Bourse**”) intends to launch S&P/TSX 60 Index Mini Futures (SXM) which would represent one-quarter of the value of Bourse’s current S&P/TSX 60 Index Futures (SXF).

For purposes of this new product, offsetting of opposite positions in SXM and SXF contracts at the ratio of one (1) SXF contract against four (4) SXM contracts would be offered in order to limit the risk of market fragmentation between the two derivatives.

The Canadian Derivatives Clearing Corporation (“**CDCC**”) is proposing to amend its Operations Manual to: (i) allow and provide for standard against mini contracts offsetting; and (ii) add SXM contracts under Section 6 regarding Submission of Tender Notices.

B. Proposed Amendments

CDCC hereby proposes to amend its Operations Manual as follows:

- Section 1 (Preamble and Definitions) would be amended to add definitions of “Mini Futures Contract”, “Standard Futures Contract” and “Request for Standard vs Mini Offset”.
- Section 2 (Time Frames) would be amended to add a cut off time for Request for Standard vs Mini Offset.
- Section 5 (Open Positions) would be amended to provide for Standard vs Mini Offset as additional type of adjustment.
- Section 6 (Exercises, Tenders, Assignments and Deliveries) would be amended to add SXM contracts under Futures Submission of Tender Notices section.

C. Rationale and Objectives

To accommodate standard against mini contracts offsetting which will be available in connection with the upcoming launch by Bourse of new SXM contracts, CDCC would require clearing members to give it instructions on the offsets required. The request would have to be in the prescribed form and the existence of the positions would have to be validated for the offset to be performed by CDCC.

D. Public Interest

The proposed amendments to the Operations Manual of CDCC should limit the risk of market fragmentation between standard and mini futures.

E. Process

The proposed amendments to the Operations Manual of CDCC were presented to the Board of Directors of CDCC for approval and were transmitted to the *Autorité des marchés financiers* in accordance with the self-certification process and to the Ontario Securities Commission for information.

F. Attached Documents

- Sections 1, 2, 5 and 6 of the Operations Manual

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 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 Series of Futures.

“Automatic Exercise” – a process by which the CDCC Clearing Application will exercise In-the-Money Options at a pre-determined threshold.

“CDCC Clearing Application” – CDCC’s system including currently SOLA Clearing and all the processes associated with it, as may be supplemented or otherwise changed from time to time.

“Closing Transaction” – any Transaction that is either a Closing Buy Transaction, a Closing Purchase Transaction, a Closing Sell Transaction or a Closing Writing Transaction, as such terms are defined in the Rules, and in all cases that reduces or eliminates the Clearing Member’s Open Interest.

“Converge” – marketing brand of the portion of the CDCC Clearing Application that captures and processes OTCI Transactions, including Fixed Income Transactions.

“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.

PREAMBLE AND DEFINITIONS

“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.

“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.

“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.](#)

“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.

“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.](#)

“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.

PREAMBLE AND DEFINITIONS

“Specific Deposit” – Margin Deposits (in the forms of Escrow Receipts, put and call letters of guaranty, bulk and specific collateral) which are accepted by CDCC to cover a specific client position.

“Standard Futures Contract” – [a Future in relation to which a Mini Futures Contract exists.](#)

“Tenderer” – a Clearing Member that holds a Short Position in a particular Series of Futures and submits a Tender Notice, or is deemed to do so in accordance with the Rules, to CDCC.

“Unsettled Items” – Any Underlying Interest that is not settled by its Settlement Time.

TIME FRAMES

ON-LINE ACCESS

Clearing Members must be connected to the CDCC Clearing Application using their PC terminals to perform a variety of functions. (Clearing Members must supply their own PC terminals and Internet connection, at their own cost.)

All instructions (corrections, Open Position changes, Position Transfers, Deposits, withdrawals, and submission of Exercise Notices and Tender Notices) must be entered on-line.

The CDCC Clearing Application allows Clearing Members to view their current information throughout the day electronically (except during scheduled maintenance or unforeseen outages). In addition, Clearing Members can download their reports from 6:00 a.m. to 3:00 p.m. every day using the FTP Download function.

Should a Clearing Member not have electronic access (due to technical issues) to the CDCC Clearing Application, CDCC can perform instructions on behalf of the Clearing Member. This requires a phone call from the Clearing Member to CDCC, along with the appropriate form faxed or scanned and e-mailed to CDCC. Such form must be authorized with the approved Clearing Member's stamp.

The regular business hours of CDCC are 7:00 a.m. to 5:30 p.m. on every Business Day.

With respect to operational activity related to Options with an Expiration Date on Saturday, CDCC staff members are on-site from 8:00 a.m. to forty-five (45) minutes after delivery of the Options Exercised and Assigned Report (MT02).

TIME FRAMES

TIME FRAMES FOR ON-LINE ACCESS

ON EVERY BUSINESS DAY

Activity	Deadlines
Payments for overnight settlement	7:45 a.m.
Intra-day margin call	10:30 a.m.
Fixed Income Transactions – Same day trades	1:30 p.m.
Fixed Income Transactions – Revisions for items that settle on current Business Day	1:30 p.m.
Fixed Income Transactions – Netting Cut Off Time (Pre-settlement netting commences) (Netted settlement instructions sent to CDS for same day settlement)	1:30 pm.
Intra-day margin call process – Specific Deposits (same-day valuation)	1:30 p.m.
Cash Deposits (Margin and Clearing Fund) – under \$2,000,000 (same day deposit)	2:45 p.m.
Cash Deposits (Margin and Clearing Fund) – of and over \$2,000,000 (2 Business Days notice)	2:45 p.m.
Cash withdrawal requests – under \$2,000,000 (same day withdrawal)	2:45 p.m.
Cash withdrawal requests – of and over \$2,000,000 (2 Business Days notice)	2:45 p.m.
Fixed Income Transactions – Netting Cut Off Time (Second pre-settlement netting commences for trades entered between 1:30 p.m. and this second cut-off time) and Cut-Off Time (Netted settlement instructions sent to CDS for same day settlement)	3:30 pm.
All assets deposits (other than cash)	3:30 p.m.
All assets withdrawal requests (other than cash) for same day withdrawal	3:30 p.m.
Failed and partial deliveries – CDCC intervention starts	3:00 p.m.
Failed and partial deliveries – CDCC intervention ends	3:55 p.m.
Specific Deposits (overnight valuation)	3:30 p.m.
OTCI (other than Fixed Income Transactions) – Unmatched entry	4:00 p.m.
Position Transfers	5:25 p.m.
Trade corrections	5:30 p.m.
Open Position changes	5:30 p.m.

TIME FRAMES

TIME FRAMES FOR ON-LINE ACCESS (continued)

ON EVERY BUSINESS DAY (continued)

Activity	Deadlines
<u>Futures – Request for Standard vs Mini Offset</u>	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.

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 Adjustment (T). Same day trade corrections are only permitted on account type, sub-account designation and opening/closing and no corrections are permitted on OTCI Transactions after a Trade Confirmation has been issued by CDCC.
2. Trade Date + 1 Adjustment (T+1). Modifications of any type are subject to approval by the relevant Exchange and no corrections permitted on OTCI Transactions.

OPEN POSITIONS

3. Open Position Change. For OTCI Transactions, these will be performed through the Position Transfer function of the CDCC Clearing Application.
4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another on a post trade basis.
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 on the form. 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. Same Day Trade Adjustment (T). Same day trade corrections are permitted on all fields except the identity of the opposite Clearing Member. These corrections cannot be made to impact a Transaction that settles that day after Netting Cut-Off Time.
2. Trade Date + 1 Adjustment (T+1). Corrections are permitted on all fields except the identity of the opposite Clearing Members. These corrections cannot be made to impact a Transaction that settles that day after Netting Cut-Off Time.
3. Open Position Change. These will be performed through the Position Transfer function of the CDCC Clearing Application.
4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another on a post trade basis.

Conditions applicable to adjustments:

If there are any adjustments that affect another Clearing Member (on the opposite side of the original Transaction), both Clearing Members must come to an agreement as to the adjustments to be implemented. If one Clearing Member does not enter any changes through the CDCC Clearing Application, the Transaction will stay as is with respect to both Clearing Members.

Notification of all adjustments must be completed prior to the time specified in Section 2 of this Operations Manual. All completed adjustments are processed when they have been verified and validated by CDCC.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

INTRODUCTION

OPTIONS

At the time of exercise of an Option, CDCC is responsible for issuing settlement records that will facilitate the delivery of the Underlying Interest to the Clearing Member who chooses to exercise that Option (in case of the exercise of a call Option) or the payment of the relevant Exercise Price (in the case of the exercise of a put Option). When a Clearing Member exercises an Option, CDCC assigns the delivery obligation to a Clearing Member who is the writer of Options in the same Series of Options in any one of its Client Account(s), Firm Account(s), or Multi-Purpose Account(s).

Assignment is made specifically to one of these accounts by CDCC. If assignment is made to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

Delivery of the Underlying Interest and payment of the Exercise Price is to be effected by Clearing Members through the settlement method instructed by CDCC.

FUTURES

All Futures which have not been closed out by the last trading day will be marked-to-market up to and including the close of the last trading day. In addition, the seller of a Future must submit a Tender Notice in the Delivery Month in accordance with applicable Contract Specifications.

When a seller of a Future submits a Tender Notice to CDCC, CDCC assigns it to a Clearing Member which is the buyer of a Future in the same Series of Futures in any one of its accounts. Assignment is made specifically to one of these accounts by CDCC. If assignment is made by CDCC to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a specific Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

EXPIRY PROCEDURES

Operations Notices are sent to Clearing Members setting forth the expiry procedures and it is the responsibility of Clearing Members to ensure that they have adequate processes in place to meet requirements and timelines prescribed by CDCC.

OPTIONS

For all information pertaining to the Option expiry procedures, Clearing Members should refer to the Operational Notices which are issued approximately two (2) weeks prior to the Expiration Date.

CDCC's Responsibilities on Expiry Saturday

1. Review/modify Underlying Interest prices and notify the Clearing Members of any changes.
2. Notify Clearing Members (via e-mail) of any changes in the Production Schedule.
3. Notify Clearing Members (via e-mail) of the status of expiry processes.
4. Assist Clearing Members.

Clearing Members' Responsibilities on Expiry Saturday

1. Ensure that the staff responsible for expiry is familiar with all expiry procedures and processes.
2. Validate entries using the Inquiry Screens or the relevant reports:
 - a. Verify that all Open Positions and adjustments match internal records, enter any new Transaction or Open Position adjustments accordingly.
 - b. Verify that the number of Options that will be automatically exercised on Expiration Date are correct.
 - c. For any changes, indicate on the Expiry Response Screen under the "Override" column the total number of Options for each Series of Options to be exercised.
 - d. Verify any Out-Of-The-Money Options or At-the-Money Options to be exercised and enter the number of Options under the "Override" column.
3. Validate changes using the reports and/or the on-line access to CDCC Clearing Application (in accordance with timeframes set forth in Section 2 of this Operations Manual).
4. If required, make any allowed modifications (in accordance with timeframes set forth in Section 2 of this Operations Manual).

Daily Expirations (other than Expiry Saturday)

When CDCC receives Underlying Interests' closing and opening prices from the relevant Exchange, the prices are specified on the relevant Expiry Report and are used to determine the In-the-Money Options and the Out-of-the-Money Options.

Clearing Members have until the Close of Business on any Business Day up to the Expiration Date to submit an Exercise Notice with respect to American Style Options to CDCC. European Style Options can only be exercised on their Expiration Date.

OTCI Options can expire on any Business Day.

Typically, exercise instructions must be entered online on the CDCC Clearing Application by Clearing Members. However, if unavailable, the following manual process can be used to submit Exercise Notices to CDCC:

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

1. The proper CDCC Exercise Notice form must be used.
2. The authorization stamp of the Clearing Member must be affixed on the form.
3. The properly delivered Exercise Notice will be accepted at any CDCC office.
4. The Exercise Notice must be properly delivered by five minutes before Close of Business.
5. The Clearing Member staff who deliver the Exercise Notice must be available until CDCC processes the exercise.

The CDCC Clearing Application will ensure that there are sufficient Options of the relevant Series of Options in the relevant account of the Clearing Member for exercising the relevant Exercise Notice; if not, CDCC will reject the Exercise Notice. If there are sufficient Options, the Clearing Member's Long Position is immediately reduced by the number of Options exercised.

AN EXERCISE NOTICE CAN BE CANCELLED UNTIL CLOSE OF BUSINESS ON THE DAY IT IS SUBMITTED.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

OPTIONS

Exercises

Delivery and payment on Exercised Positions are due on the Exercise Settlement Date.

Until Exercise Settlement Date, CDCC continues to require sufficient Margin to ensure that, if a Clearing Member defaults, any Exercise Notice submitted by it or assigned to it, as the case may be, will be completed.

Exercised Positions and Assigned Positions are reported to Clearing Members through relevant reports listed in Section 3 of this Operations Manual.

Assignments

After the Close of Business on any Business Day on which an Exercise Notice is submitted to CDCC, assignment of such Exercise Notice is made on a random selection basis, in which each account of a Member is treated separately. The reason for the separation is to ensure that each Clearing Member's Client Account(s), Firm Account(s), and Multi-Purpose Account(s) have the same probability of being assigned Exercise Notices. When a Clearing Member is assigned an Exercise Notice for a given account (e.g. the Firm Account) it may not allocate that assignment to another account (e.g. a Client Account).

An attempt will be made by CDCC to assign an Exercise Notice for more than 10 Options contracts in blocks not exceeding 10 contracts in each Series of Options.

Exercise Notices assigned to a Clearing Member's Client Account shall be allocated by the Clearing Member to any of its clients based on any method which is equitable and consistent with the rules of the relevant Exchange.

Automatic Exercise - Options and Options on Futures

To safeguard Clearing Members from possible errors, CDCC has instituted an Automatic Exercise procedure for expiring Series of Options. In simple terms, all In-the-Money Options and Options on Futures over predetermined thresholds are automatically exercised by CDCC, unless Clearing Members instruct otherwise.

CDCC establishes predetermined thresholds and informs Clearing Members that every Option and Option on Future above that threshold will be automatically exercised. CDCC will not automatically exercise any At-the-Money Option. CDCC provides a method for Clearing Members to make changes to the Automatic Exercise function of the CDCC Clearing Application. This allows Clearing Members to either opt in or opt out of the Automatic Exercise with respect to the Options and Options on Future they hold. For example, a Member can choose not to exercise an Option that is above the predetermined threshold but to exercise another Option that is At-the-Money or Out-of-the-Money.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES**Exercised and Assigned Option Contracts****a) Exercised Positions**

A Clearing Member who has exercised an Option has an obligation to either deliver the Underlying Interest (in the case of a Put Option) or pay the Exercise Price (in the case of a Call Option).

b) Assigned Positions

A Clearing Member who has been assigned an Exercise Notice has the obligation to pay the Exercise Price upon delivery of the Underlying Interest (in the case of a Put Option) or to deliver the Underlying Interest against payment (in the case of a Call Option).

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

FUTURES

Submission of Tender Notices

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

CGB, CGF and LGB three Business Days prior to the first Business Day of the Delivery Month up to and including the fourth to last Business Day of the Delivery Month.

CGZ two Business Days prior to the first Business Day of the Delivery Month up to and including the third to last Business Day of the Delivery Month.

MCX before Close of Business on the last trading day.

All outstanding Short Positions in BAX, SXF, [SXM](#), SCF, Sectorial Indices, Options on Futures are automatically tendered on the last trading day, as per Contract Specifications, after Close of Business.

All outstanding Short Positions in ONX are automatically tendered on the first Business Day of the contract month, as per Contract Specifications, after Close of Business.

Assignment of Tender Notices

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

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

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

Description of Procedures

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

On the sixth Business Day prior to the first Business Day of the Delivery Month, each Clearing Member holding Long Positions in the relevant Series of Futures must declare on the CDCC Clearing Application its Long Positions in chronological order for each of its accounts. The entries must include the date the position was opened, the number of contracts and the account. When CDCC assigns a Tender Notice, the Long Position with the oldest date will be assigned first and the Long Position with the most recent date will be assigned last.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

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

FIXED INCOME TRANSACTIONS

CDCC acts as central counterparty to all Fixed Income Transactions that are submitted by Clearing Members to CDCC for clearing. All Fixed Income Transactions shall be submitted for clearing to CDCC through an Acceptable Marketplace or through the CDS trade matching facility routing matched trades to CDCC. As a result of these Transactions being novated to CDCC, CDCC will be either the buyer or the seller of all settlement records that are sent to the Central Securities Depository.

Various batches of settlement records will be sent by CDCC to the Central Securities Depository on a daily basis. Two settlement records consisting of net settlement instructions will be sent at the first Netting Cut Off Time and at the second Netting Cut Off Time, and any Fixed Income Transaction entered after the second Netting Cut Off Time will be sent to the Central Securities Depository without CDCC performing any pre-settlement netting.

Pre-settlement netting process

With respect to each Fixed Income Clearing Member, CDCC determines the Net Delivery Obligation(s) and/or the Net Payment Obligation as set forth in Subsection D-606(3) of the Rules. Any other delivery and payment obligation between a Clearing Member and CDCC under any Futures contract settling at the relevant Central Securities Depository will be aggregated to and netted against the Net Delivery Obligation(s) and/or the Net Payment Obligation as set forth in paragraphs (b) and (c) of Subsection A-801(2) of the Rules, such that CDCC shall send to the relevant Central Securities Depository netted settlement instructions at relevant Netting Cut Off Times.

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 submitted to CDCC for clearing as of the relevant 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.

In the event of a Failed Delivery for a particular settlement tranche, 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 event that a Clearing Member who is Receiver of Securities fails to take receipt of a portion, or all of the settlement tranche as determined by CDCC's net settlement instructions, the Clearing Member determined by CDCC to be in a fail to receive position shall be required to pay to CDCC any charges which are levied on CDCC for the overnight financing of this failed to receive position, in addition to any other remedies that CDCC may apply to such situation in accordance with the Rules.