



NOTICE TO MEMBERS

N° 2022 - 029

March 8, 2022

THIRD REQUEST FOR COMMENTS

ADDITIONAL AMENDMENTS TO THE OPERATIONS MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION ON THE GROSS CLIENT MARGIN INITIATIVE

On May 6, 2021 and on November 2, 2021, the Board of Directors of the Canadian Derivatives Clearing Corporation ("CDCC") approved certain amendments to the Rules, Operations Manual, Risk Manual and Default Manual of CDCC (the "Rules") in connection with the Gross Client Margin Model (the "Approved Proposals"). The Approved Proposals were published for comments on July 5, 2021 ([Notice to Member 102-21](#)) and on November 5, 2021 ([Notice to Member 164-21](#)).

Following the publication of the Approved Proposals, CDCC approved on February 4, 2022 additional modifications to the Operations Manual on Gross Client Margin initiative.

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

Process for Changes to the Rules

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

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

Comments on the proposed amendments must be submitted before **April 11, 2022**. Please submit your comments to:

Sophie Brault
Legal Counsel
Canadian Derivatives Clearing Corporation
1800-1190 av. des Canadiens-de-Montréal, P.O. Box 37
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A copy of these comments shall also be forwarded to the AMF and to the OSC to:

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Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
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20 Queen Street West
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For any question or clarification, Clearing Members may contact Sophie Brault at 514-268-0591 or at sophie.brault@tmx.com.

George Kormas
President



**ADDITIONAL AMENDMENTS TO THE OPERATIONS MANUAL OF THE CANADIAN DERIVATIVES
CLEARING CORPORATION ON THE GROSS CLIENT MARGIN MODEL INITIATIVE.**

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I. DESCRIPTION

The Canadian Derivatives Clearing Corporation (hereafter “**CDCC**” or the “**Corporation**”) proposed changes to its Rules, Operations Manual, Risk Manual and Default Manual (the “**Rules**”) pertaining to the Gross Client Margin Regime (the “**GCM Regime**”) initiative on July 5, 2021 under the Notice to Members [2021-102](#) and on November 5, 2021 under Notice to Members [2021-164](#) (hereinafter the “**Notices to Members**”). After consultation with the industry stakeholders, CDCC decided to propose another set of amendments to its Operations Manual.

CDCC wishes to emphasize that the proposed changes will have no impact on the GCM model which was presented in July and November 2021. These new changes are operational in nature only.

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

II. PROPOSED AMENDMENTS

CDCC is proposing additional amendments to the Operations Manual regarding certain activities (end of day and overnight) in order to mitigate some impacts of the Gross Client Margin (“**GCM**”) process :

- Preamble and definitions (section 1-3)
- Settlement time for every business day (section 2-2)
- Overnight uncovered risk exposure (section 11-3)
- Overnight clearing cycle requirements (section 12-1)

III. ANALYSIS

a. Background

Key new features of the GCM model were proposed in the detailed analysis under the Notices to Members, establishing the new structural changes in connection with the margin, the individual client positions declaration, the collateral segregation & management of the accounts and the portability process.

As part of the GCM project, the Corporation is assessing comments from the industry stakeholders regarding some operational constraints of the GCM process. These additional assessments complete the impact analysis and build on the key new features of the GCM model that were proposed in the previous phases of the project.

b. Description and Analysis of Impacts

i. Update on operational timelines and processes

Operational Manual

The CDCC is proposing certain amendments to its Operations Manual in order to reflect the impacts of the GCM end of day process on the overnight monitoring and overnight settlement processes:

- Overnight settlement payment deadline moved to 8:15 a.m. ET
- 7:15 a.m. ET intraday batch replaced by new monitoring batches from 5:00 a.m. to 8:15 a.m. ET

Overnight settlement payment deadline moved to 8:15 a.m. ET

CDCC is proposing to change its 7:45 a.m. ET overnight settlement payment deadline to 8:15 a.m. ET. This change will give the Clearing Members (“**CM**”) more time to fulfill their obligation since the settlement report (MS01) will be available later (currently around 6:30 p.m. vs. 9:30 p.m. ET after the GCM project). Therefore the risk of having payment issues in the morning is mitigated.

7:15 a.m. ET intraday batch replaced by new monitoring batches from 5:00 a.m. to 8:15 a.m. ET

CDCC is proposing to replace its 7:15 a.m. ET intraday batch (introduced during the European extended hours project, notice to members No. [080 - 2018](#)) by a new monitoring batch at 8:15 a.m. In addition to this 8:15 a.m. ET monitoring batch, CDCC is also proposing to extend its hourly monitoring from 5:00. a.m. to 7:00 a.m. ET resulting in continuous overnight monitoring from 10:00 p.m. (t-1) to 8:15 a.m. ET (t). As a consequence, CDCC is also proposing to extend its Overnight Clearing Cycle until 8:15 a.m. ET. However, since CDSX is opening at 7:00 a.m. ET, the foreign currencies will only be accepted until 7:00 a.m. ET.

The 5:00 a.m., 6:00 a.m., 7:00 a.m. and 8:15 a.m. ET monitoring batch will fall under the Overnight Clearing Cycle solution (active participation, monitoring threshold (10%), products & add-ons in scope, etc.). The 8:15 a.m. ET monitoring batch will also inherit the risk treatment that is currently applicable to the 1:00 a.m. ET monitoring (update of both the Base Initial Margin and the Additional Margin for Intra-Day Variation Margin Risk requirement, for Futures products only).

The eligible currencies timeline will also be amended in order to allow CM to deposit eligible currencies until 7:00 a.m. (from 7:00 a.m., only CAD currency will be accepted).

These changes are aligned with the change of the overnight settlement payment deadline being moved to 8:15 a.m. since it will prevent CM’s funding issues and operational inefficiencies of having 2 payment deadlines sometimes offsetting each other within 30 minutes. Currently a CM

might have to pay a margin deficit from the Overnight Settlement at 7:45 a.m. ET whereas it has an excess at the 7:15 a.m. ET margin calculation.

It also represents an improvement of the overnight monitoring introduced with the Asia extended hours project.

IV. IMPACTS ON MARKET

No significant impact on the level of margins is expected as the proposed change is of an operational nature. Neither the overall level of margins, nor the calibration of the Clearing Fund or Supplemental Liquidity Fund are impacted by this change. Only the early morning clearing is impacted by the extension of the overnight clearing cycle in lieu of the 7:15 a.m. ET scheduled margin call. This will mostly allow for the probability of late night / early morning margin calls to be significantly reduced, while efficiently managing risks and providing a coherent clearing solution throughout the entire overnight cycle. Note that the 10:30 a.m. ET scheduled margin call is unchanged and will therefore get back to being the first scheduled margin call of the day, as it was the case before the first introduction of overnight clearing in 2018.

V. IMPACTS ON TECHNOLOGICAL SYSTEMS

Only a minor development will be required in order to prevent any new Fixed Income Transactions to trigger the participation of Clearing Members to the overnight clearing cycle, which rather aims to specifically manage the market risk for Clearing Members active on eligible Montreal Exchange products. No other material impacts on CDCC's system are expected as the proposed changes are only system configuration changes to update the operation timeline.

VI. IMPACTS ON TRADING FUNCTIONS

No technological changes will be required for the trading functions, as already outlined under the previous Notices to Members.

VII. PUBLIC INTEREST

CDCC is of the view that the proposed amendments are not contrary to the public interest. In fact, the public and Clearing Members are generally requesting clear rules that are consistent with the best practices of other clearinghouses and are PFMI compliant.

VIII. PROCESS

The proposed amendments, including this analysis, must be approved by CDCC's board of directors and submitted to the Autorité des marchés financiers, in accordance with the regulatory self-certification process, and to the Ontario Securities Commission in accordance with the rules stated in Appendix "A" of Schedule "C" of CDCC Recognition Order dated April 8,

2014 (as amended from time to time). The proposed amendments and analysis will also be submitted to the Bank of Canada in accordance with the Regulatory Oversight Agreement.

The GCM model is a multi-year project scheduled for a single implementation expected in the second quarter of 2022.

IX. ATTACHED DOCUMENTS

Appendix A: Proposed additional amendments to the Operations Manuals.



**APPENDIX 1: AMENDED OPERATIONS MANUAL
AMENDED VERSION**

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

OPERATIONS MANUAL

~~SEPTEMBER 19, 2021~~



Section: 1 - 2

PREAMBLE AND DEFINITIONS

DEFINITIONS

[...]

“Overnight Clearing Cycle” - clearing cycle starting at 8:00pm (t-1) and ending at ~~8:15~~ 6:00 am ET.

[...]

“Regular Clearing Cycle” - clearing cycle starting at ~~8:15~~ 6:00 am and ending at 5:30 pm ET.



[...]

Section: 2-2

TIME FRAMES

SETTLEMENT TIME FOR EVERY BUSINESS DAY

Activity	Time Frames	Activity Type
Beginning of Clearing Day and Overnight Clearing Cycle	8:00 p.m. (t-1)	System Activity
Clearing Member's (excluding LCMs) Overnight Margin Calculation & Notification	Every hour from 10 9:00 p.m. (t-1) to 5 7:00 and 8:15 a.m. (t)	System Activity/ Notification
Deadline to settle Overnight Margin Call	2 hours after notification	Obligation Deadline
Beginning of Settlement Day at CDS	5:30 a.m.	System Activity
End of Overnight Clearing Cycle	6:00 8:15 a.m.	System Activity
Beginning of Regular Clearing Cycle	6:00 8:15 a.m.	System Activity
Clearing Member's (excluding LCMs) Activity/Notification — Early Morning Intra-Day Margin Calculation & Notification	7:15 a.m.	System
Deadline to settle Early Morning Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline
Assets Concentration Limits breach notification	7:30 a.m.	Notification
Deadline for Clearing Members (excluding LCMs) for Settlement Time with respect to payments for overnight settlement	7:45 8:15 a.m.	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	8:30 a.m.	System Activity
Deadline for Clearing Members (excluding LCMs) to receive EOD Amount due from CDCC	8:45 a.m.	Obligation Deadline
Deadline for LCMs for Settlement Time with respect to payments for overnight settlement	9:00 a.m.	Obligation Deadline
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) - 15 minutes cycle

10:00 a.m.

System Activity



[...]

Section: 11-3

ESCALATION PROCEDURE

OVERNIGHT UNCOVERED RISK EXPOSURE

During the Overnight Clearing Cycle, CDCC's risk appetite for acceptable levels of uncovered risk are measured every hour on a per Clearing Member basis as a proportion of their Margin requirements, and will therefore take the form of a relative threshold (the "Threshold") The first monitoring snapshot occurs at ~~9:10~~ 10:00 pm ET (t-1) and the last one at ~~5:00~~ 8:15 am ET, where the Margin requirement is systemically updated with movements in Initial Margin, but only updated ~~twice~~ ~~once~~ with movements in Variation Margin¹ (at the 1:00 am ET and 8:15 am ET monitoring snapshot). The hourly monitoring of both the Initial Margin and Variation Margin is available and used to estimate the build-up of credit exposure (the "Live margin check").



[...]

Section: 12-1

OVERNIGHT CLEARING CYCLE REQUIREMENTS

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During the Overnight Clearing Cycle, Clearing Members are assigned to one of the following solution based on their payment capabilities:

- Pre-funding solution (i.e. Overnight Clearing Cycle eligible collateral payment capabilities not available)
- Payment solution (i.e. Overnight Clearing Cycle eligible collateral payment capabilities available)

By default, Clearing Members are considered part of the Pre-funding solution until they demonstrate their ability to meet their obligations towards CDCC from amongst the below list of Overnight Clearing Cycle eligible collateral with respect to the Asian hours, European hours, or both:

- “Asian hours” - i.e. 8:00 pm to 1:00 am ET - in a selection of eligible Non-CAD currencies.
- “European hours” - i.e. 1:00 am to ~~8:15 6:00~~ am ET - in a selection of eligible ~~Non-CAD~~ currencies until 7:00 am ET or any form of eligible collateral pledged through CDSX.

Clearing Members opting to qualify for the Payment solution during either the Asian hours, European hours or both will automatically be considered as part of the Payment solution at the 1:00 am ET monitoring snapshot (juncture of Asian and European hours).

CDCC will conduct routine testing of the Payment solution from time to time to ensure that operational readiness is maintained by Clearing Members. Should a Clearing Member fail such tests, it will be reassigned to the Pre-funding solution.

CDCC will allow Clearing Members under the Pre-funding solution to enter the Payment solution at any time after the required certification requirements are passed.



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CLEAN VERSION**

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

OPERATIONS MANUAL

, 202x



Section: 1 - 2

PREAMBLE AND DEFINITIONS

DEFINITIONS

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“Overnight Clearing Cycle” - clearing cycle starting at 8:00pm (t-1) and ending at 8:15 am ET.

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“Regular Clearing Cycle” - clearing cycle starting at 8:15 am and ending at 5:30 pm ET.



[...]

Section: 2-2

TIME FRAMES

SETTLEMENT TIME FOR EVERY BUSINESS DAY

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Beginning of Clearing Day and Overnight Clearing Cycle	8:00 p.m. (t-1)	System Activity
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Deadline to settle Overnight Margin Call	2 hours after notification	Obligation Deadline
Beginning of Settlement Day at CDS	5:30 a.m.	System Activity
End of Overnight Clearing Cycle	8:15 a.m.	System Activity
Beginning of Regular Clearing Cycle	8:15 a.m.	System Activity
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Deadline for Clearing Members (excluding LCMs) to receive EOD Amount due from CDCC	8:45 a.m.	Obligation Deadline
Deadline for LCMs for Settlement Time with respect to payments for overnight settlement	9:00 a.m.	Obligation Deadline
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) - 15 minutes cycle	10:00 a.m.	System Activity



[...]

Section: 11-3

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