NOTICE TO MEMBERS

No. 041-24

April 16, 2024

SELF-CERTIFICATION

AMENDMENTS TO THE RULES AND OPERATIONS AND RISK MANUALS OF THE CANADIAN DERIVATIVES CLEARING CORPORATION REGARDING REFERENCE RATE FALLBACK PROCEDURES

On October 26, 2023, the Board of Directors of the Canadian Derivatives Clearing Corporation ("**CDCC**") approved amendments to its rules (the "Rules") and to its Operations and Risk Manuals to include fallback procedures for benchmark reference rates to modify the settlement price procedure for Three-Month Canadian Bankers' Acceptance Futures (BAX) contracts to allow for their conversion to Three-Month CORRA Futures (CRA) contracts, before the discontinuation of CDOR.

These amendments have been self-certified pursuant to the self-certification process set forth in the *Derivatives Act* (C.Q.L.R., c I-14.01) and submitted to the Ontario Securities Commission in accordance with the "Rule Change Requiring Approval in Ontario" process.

You will find attached hereto the amendments set to come into force and to be incorporated into the versions, which will be made available on the CDCC website at www.cdcc.ca, 1) of the Rules on **April 23, 2024**, 2) of the Operations Manual on **April 25, 2024,** and 3) regarding the Housekeeping Change, of the Operations and Risk Manuals on **June 17, 2024**, after market close on said dates.

The amendments described in the present notice were published for public comment by CDCC on December 12, 2023 (see Notice 149-23). Further to the publication of this notice, no comments were received by CDCC.

If you have any questions or concerns regarding this notice, please contact Maxime Rousseau-Turenne, Legal Counsel, by email at maxime.rousseauturenne@tmx.com.

Maxime Rousseau-Turenne
Legal Counsel
Corporation canadienne de compensation de produits dérivés

<u>Rules</u>

[...]

Section C-1201 - Definitions

[...]

"CDOR Cessation Event" – means the permanent cessation of the calculation and publication of all tenors of CDOR following a final publication on June 28, 2024, as announced on May 16, 2022 by the administrator of CDOR, currently Refinitiv Benchmark Services (UK) Limited ("**RBSL**").

[...]

Section C-1204A - Reference Rate Fallback Procedures

Notwithstanding anything to the contrary in the Rules, including Section C-1204, the following shall apply to the three-month Canadian Bankers' Acceptance Futures:

a) BAX Fallback Effective Date

The BAX fallback effective date shall be April 26, 2024, or as determined by the Exchange (the "**BAX Fallback Effective Date**").

b) BAX Fallback Procedure

Following close of business day on the BAX Fallback Effective Date, all open positions in the BAX contract that expire after the CDOR Cessation Event will be converted as follows:

(i) each position in the contract that is affected by the CDOR Cessation Event shall be terminated at a price determined by the Exchange (the "Termination Price") and replaced with a corresponding open position in Three-Month CORRA Futures (a "Replacement Position");

(ii) the Termination Price of such contracts shall be equal to the truncated value, to four decimal places, of:

(A) the most recent daily Settlement Price for the Three-Month CORRA Futures on the BAX Fallback Effective Date, minus

(B) a value adjustment amount which shall be equal to the spread adjustment for the rate published by Bloomberg Index Services Limited and equal to 0.32138% for the three-month tenor.

The Replacement Position shall be assigned to a position holder in accordance with the following procedure:

(i) the Replacement Position in Three-Month CORRA Futures shall be equal in trading unit size and direction to the position in the contract and with the same delivery month;

(ii) the price at which the Replacement Position is assigned to the position holder shall be the most recent daily Settlement Price for the contract on the BAX Fallback Effective Date.

c) Clearing of the Replacement Position

Clearing of the Replacement Position shall be subject to the Rules for Three-Month CORRA Futures, including for the avoidance of doubt the determination of daily and final Settlement Prices in respect of each Replacement Position.

d) Termination of Trading

(i) Following close of business day on the BAX Fallback Effective Date, trading in BAX contracts expiring after the CDOR Cessation Event shall be terminated and such contracts shall no longer be available for trading at the Exchange with immediate effect;

(ii) Trading in the contracts expiring before the CDOR Cessation Event shall continue after the BAX Fallback Effective Date until the date of termination of trading of each such contract.

[...]

Operations Manual

[...]

FIXED INCOME VARIATION MARGIN DELIVERY FAILURE

Fines

CDCC will apply fines for failure to return distributed securities.

CDCC will apply fines for failure to return securities subject to a substitution notice, by the appropriate deadline.

For each day between the day of the original return obligation and the delivery date (the "Fail Period") a fine will be applied (Fail fees). The Fail fee is based on a rate equal to CORRA~~1-month CDOR~~, ~~which is fixed on a monthly basis and is~~ applied daily. CDCC shall immediately notify the Clearing Member to which a fine is imposed.

Throughout the Fail Period, CDCC will require to receive Eligible Collateral of a value equivalent to the value of the unreturned securities and CDCC will deliver such replacement securities to the receiving Clearing Member (the "Replacement Securities"). At the end of the Fail Period, the Replacement Securities will be returned from the receiving Clearing Member to the delivering Clearing Member.

The fines described above are subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

[...]

Housekeeping

Operations Manual

[...]

FUTURES

Submission of Tender Notices

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

CGB, CGF and CGZ	two Business Days preceding the first Business Day of the Delivery Month up to and including the second last Business Day preceding the last Business Day of the Delivery Month.
LGB and MCX	before Close of Business on the last trading day.

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

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

[...]

Risk Manual

[...]

6.1.2 Intra-Commodity

Long positions on Futures maturing in one month are automatically matched with short positions on Futures maturing in another month. The resulting Base Initial Margin on these two Futures belonging to the same Combined Commodity, could be lower than the real risk associated with the combination of the two contracts. In order to cover this inter-month spread risk, a charge is included in the Base Initial Margin.

For the Futures, the Intra-Commodity which is an additional dollar amount charge applied to each combination of a minimum of two different Futures, is determined by applying the MI methodology on the Futures combination's daily profit and loss over the reference period. The methodology for the MI is detailed in Section 6.5.

With respect to ~~the BAX,~~ the CORRA Futures (COA & CRA), the S&P/TSX 60 Index Standard Futures (SXF) and the S&P/TSX 60 Dividend Index Futures, CDCC calculates the Intra-Commodity for combinations of spreads and/or butterfly strategies and applies a same charge for a same group of combinations with close maturities. If multiple Intra-Commodity are defined, the Corporation will prioritize the ones providing the lowest Base Initial Margin.

The combinations and the spread priorities for the Intra-Commodity are updated by CDCC from time to time.

[...]

6.5 MARGIN INTERVAL

The MI is calculated using the following formula for the Historical Risk:

$$Historical\ Risk = \sigma_t \times \alpha \times \sqrt{n}$$

Where 'n' is the MPOR, 'α' is equal to the confidence level equivalent to 99.87% (three standard deviations) of the cumulative normal distribution (applicable to all products except for ~~the BAX,~~ the CORRA Futures and the S&P/MX International Cannabis Index Futures and the S&P/TSX 60 Dividend Index Futures) or equal to the confidence value equivalent to 99% of the cumulative student's t-distribution with 4 degrees of freedom (applicable to ~~the BAX,~~ the CORRA Futures, the S&P/MX International Cannabis Index Futures and the S&P/TSX 60 Dividend Index Futures). 'σ_t' is the volatility estimator of the contract's returns and is computed using an exponentially weighted moving average (EWMA) approach.

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<u>Operations Manual</u>

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