



NOTICE TO MEMBERS

No. 2016 – 057

May 19, 2016

REQUEST FOR COMMENTS

AMENDMENTS TO THE CANADIAN DERIVATIVES CLEARING CORPORATION OPERATIONS MANUAL TO ADD NETTING CYCLES

Summary

On May 6, 2016, the Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Operations Manual. The purpose of the proposed amendments is to add three (3) additional Netting Cycles for the Fixed-Income underlying settlements to the Business Day which will enhance the settlement of Fixed-Income Transactions and cash-underlying transactions.

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 is 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 Rules and Operations Manual of CDCC. Amendments are submitted to the AMF in accordance with the self-certification process and the Ontario Securities Commission in accordance with the process provided in its Recognition Order.

Canadian Derivatives Clearing Corporation

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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:

*Mr. Jacques Guvlekjian
Legal Counsel
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Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Québec H4Z 1A9
E-mail: legal@m-x.ca*

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

*Mrs. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse, P.O. Box 246
800 Victoria Square, 22nd Floor
Montréal, Québec H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca*

*Manager, Market Regulation
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For any question or clarification, Clearing Members may contact CDCC's Corporate Operations.

Glenn Goucher
President and Chief Clearing Officer



**AMENDMENTS TO OPERATIONS MANUAL
OF THE CANADIAN DERIVATIVES CLEARING CORPORATION TO ADD NETTING CYCLES**

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I. SUMMARY

Canadian Derivatives Clearing Corporation (“CDCC”) is proposing to add three (3) additional Netting Cycles for the Fixed Income underlying settlements to the Business Day.

The first is proposed to be at 8:30 a.m. for fifteen (15) minutes, the second would be at 12:15 p.m. for fifteen (15) minutes and the third would be at 3:35 p.m. for five (5) minutes.

II. ANALYSIS

a. Background

CDCC’s current Netting Cycles are at 10:00 a.m. and at 2:00 p.m. Both of these cycles are for fifteen (15) minutes as was agreed with the Industry during the design phase of the Repo initiative.

b. Description and Analysis of Impacts

Netting Cycle – 8:30 a.m. for fifteen (15) minutes:

After the February Users’ Group meeting, CDCC’s Business Development Manager received a request from a Clearing Member to consider an additional netting cycle at 8:30 a.m. to reduce morning congestion (Gridlock). Their rationale was that their firm had General Collateral (GC) settlements that would offset their obligations to CDCC in the morning if a Netting Cycle was run.

On Wednesday, March 16, 2016, CDCC issued an e-mail questionnaire to key Clearing Member contacts asking for their opinions on this. The response was unanimously in favour for those Clearing Members that responded.

Netting Cycle – 12:15 p.m. for fifteen (15) minutes:

After the February Users’ Group meeting, CDCC’s Business Development Manager received a request from a Clearing Member to consider an additional netting cycle between noon and 1:00 p.m. to coincide with the close of the Bank of Canada auction process. CDCC suggested to this Clearing Member that the Netting Cycle commence at 12:15 p.m. therefore being completed just prior to the 12:45 p.m. Intraday Margining cycle. This Netting Cycle timing could potentially reduce the Clearing Members’ Mismatch Settlement margin requirements.

On Wednesday, March 16, 2016, CDCC issued an e-mail questionnaire to key Clearing Member contacts asking for their opinions on this. The response was unanimously in favour for those Clearing Members that responded.

Netting Cycle – 3:35 p.m. for five (5) minutes:

CDCC had noticed a condition that was occurring after the 2:00 p.m. Netting Cycle. On occasion, Clearing Members had submitted offsetting trades for pending settlement instructions within CDSX. CDCC is assuming that these transactions had entered prior to 2:00 p.m. but had not been confirmed by one of the counterparties thereby missing the Netting Cycle. When this situation occurs, there are false settlement instruction trade failures at the CDSX end of day.

CDCC presented this to the November 10, 2015 Users' Group during the Open Forum. CDCC suggested the netting be for only five (5) minutes due to the time day. During the meeting, there was comfort with the suggestion therefore CDCC committed to performing a Phone Poll on this subject. The response was unanimously in favour for those Clearing Members that responded. The results of the Phone Poll were shared with the Users' Group at the February 10, 2016.

c. Proposed Amendments

See attached Appendix 1.

d. Benchmarking

Not applicable.

III. PRIMARY MOTIVATION

The primary motivation is that by adding netting cycles, it will enhance the settlement of Fixed Income Transactions and cash underlying by potentially netting buys and sells and therefore to address clearing members need.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

There is no impact to CDCS. Netting Cycles can be added via the SOLA-C component configuration. There is no anticipated impact to CDSX.

V. OBJECTIVES OF THE PROPOSED MODIFICATIONS

The objective is to enhance the settlement of Fixed Income Transactions and cash underlying by potentially netting buys and sells therefore reducing the Clearing Members obligations to the system.

VI. PUBLIC INTEREST

In CDCC's opinion, the proposed amendment is not contrary to the public interest because it addresses clearing members' needs and it reduces the overall number of settlements associated with each clearing members.

VII. MARKET IMPACTS

Enhance settlement of Fixed Income Transactions and cash underlying by potentially netting buys and sells therefore reducing the Clearing Members obligations to the system.

VIII. PROCESS

The proposed amendment is submitted for approval by the CDCC Board. After the approval has been obtained, the proposed amendment, including this analysis, will be transmitted to the Autorité des marchés financiers in accordance with the self-certification process, and to the Ontario Securities Commission in accordance with the "Rule Change Requiring Approval in Ontario" process. The proposed amendment and analysis will also be submitted for approval to the Bank of Canada in accordance with the Regulatory Oversight Agreement.

IX. EFFECTIVE DATE

CDCC would like to implement the amendment in the second quarter of 2016.

X. ATTACHED DOCUMENTS

Appendix 1: Amended Operations Manual.



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

OPERATIONS MANUAL

VERSION OF ~~DECEMBER 16~~, 2015

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.
<u>Fixed Income Transactions – Netting Cycle Timeframe in respect of any Pending Settlement Requirements (Morning Net DVP Settlement Requirements sent to CDS for settlement)</u>	<u>8:30 to 8:45 a.m.</u>
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.
Morning Intra-Day Margin Call	10:30 a.m.
<u>Fixed Income Transactions – Netting Cycle Timeframe in respect of any Pending Settlement Requirements (Afternoon Net DVP Settlement Requirements sent to CDS for settlement)</u>	<u>12:15 to 12:30 p.m.</u>
Afternoon Intra-Day Margin Call	12:45 p.m.
Specific Deposits (same day withdrawal)	12:45 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) – \$10,000,000 and under (same day deposit)	2:45 p.m.
Cash Deposits (Margin Deposits) – over \$10,000,000 (2 Business Days notice)	2:45 p.m.
Cash withdrawal requests (Margin Deposits) – \$10,000,000 and under (same day withdrawal)	2:45 p.m.
Cash withdrawal requests (Margin Deposits) – over \$10,000,000 (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.
<u>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)</u>	<u>3:35 to 3:40 p.m.</u>

End of Day DVP Settlement Time	4:00 p.m.
OTCI (other than Fixed Income Transactions) – Unmatched entry	4:30 p.m.
Position Transfers	5:25 p.m.
Same Day and T+1 Trade corrections	5:30 p.m.
Open Position changes	5:30 p.m.
Fixed Income Transactions 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 FOR ON-LINE ACCESS (continued)

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.

ADDITIONAL NET DVP SETTLEMENT PROCESS

In respect of any Pending Payment Against Delivery Requirements at the Netting Cycle Timeframe(s) specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (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.