



## NOTICE TO MEMBERS

No. 2014 – 119

June 9, 2014

### **SELF-CERTIFICATION**

#### **AMENDMENTS TO CDCC'S RULES, OPERATIONS MANUAL AND RISK MANUAL**

#### **NEW PRODUCT: FTSE EMERGING MARKETS INDEX FUTURES**

On November 1, 2013, the Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved amendments to its Rules and its Operations Manual (including the Risk Manual). CDCC wishes to inform clearing members that these amendments were self-certified in accordance with the self-certification process provided under the *Securities Act* (Québec) (R.S.Q., Chapter I-14.01).

The purpose of these amendments is to introduce a new product: FTSE Emerging Markets Index Futures.

Please find attached the amendments that will take effect and be incorporated into CDCC's Rules, Operations Manual and Risk Manual available on CDCC's web site ([www.cdcc.ca](http://www.cdcc.ca)) as of June 9, 2014. The product will be officially available on June 13, 2014.

If you have any questions or comments regarding this notice, please contact CDCC's Member Services or send an email to [cdccops@cdcc.ca](mailto:cdccops@cdcc.ca).

Glenn Goucher  
President and Chief Clearing Officer

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#### Canadian Derivatives Clearing Corporation

The Exchange Tower  
130 King Street West, 5<sup>th</sup> Floor  
Toronto, Ontario  
M5X 1J2

Tel. : 416-367-2470  
Fax: 416-350-2780

Tour de la Bourse  
800 Victoria Square, 3<sup>rd</sup> Floor  
Montréal, Québec  
H4Z 1A9

Tél. : 514-871-3545  
Fax: 514-871-3530

[www.cdcc.ca](http://www.cdcc.ca)



**CANADIAN DERIVATIVES CLEARING CORPORATION**

**RULES**

**VERSION OF JUNE 9, 2014~~NOVEMBER 29, 2013~~**

## RULE C-23 FUTURES CONTRACTS ON EQUITY INDICES WITH CASH SETTLEMENT IN US DOLLARS

The Sections of this Rule C-23 are applicable only to Futures contracts on equity indices with Cash settlement in US Dollars.

### Section C-2301 Definitions

Notwithstanding Section A-102, for the purposes of Futures contracts on equity indices with Cash settlement in US Dollars, the following terms are as defined:

“Cash” – money in the lawful currency of the United States.

“Eligible Equity Index” – the FTSE Emerging Markets Index.

“Exchange” – Bourse de Montréal Inc.

“Final Settlement Price” – the price determined by the Exchange as being the official closing price of the equity index, expressed in U.S. dollars, on the last day of trading, multiplied by the Multiplier.

“Multiplier” – the factor used to calculate the size of the Futures contract as specified by the Exchange.

“Underlying Interest” – the Eligible Equity Index which is the subject of the Futures contract.

### Section C-2302 Final 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 contracts shall be made 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 Clearing Members holding Long Positions and Short Positions. The amount to be paid or received in final settlement of:

(a) each position opened prior to the last day of trading is the difference between:

(i) the Final Settlement Price, and

(ii) the Settlement Price of the Futures contract on the Business Day before the last day of trading,

multiplied by the Multiplier of the Futures contract; and

(b) each position opened on the last day of trading is the difference between

(i) the Final Settlement Price, and

(ii) the Trade Price of the open Futures contract

multiplied by the Multiplier of the Futures contract.

### **Section C-2303 Tender Notices**

Rule C-5 shall not apply to Futures contracts on equity indices with Cash settlement in US Dollars as they are Cash settled.

### **Section C-2304 Adjustments**

No adjustments will ordinarily be made in the terms of Futures contracts on equity indices with Cash settlement in US Dollars in the event that securities composing the Eligible Equity Index are added to or deleted or when their relative weight is changed. However, the Corporation may, at the request of the Exchange, adjust the terms of the affected Futures contracts on equity indices with Cash settlement in US Dollars.

### **Section C-2305 Unavailability or Inaccuracy of Current Value**

(1) If the Corporation shall determine that the Final Settlement Price for an equity index underlying any series of Futures contracts on equity indices with cash settlement in US Dollars 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 these Rules, the Corporation may do any or all of the following:

- (a) suspend the Settlement of Gains and Losses. At such times 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 shall be conclusively deemed to be accurate except that where the Corporation determines in its 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 amend the Final Settlement Price to be used for settlement purposes.

### **Section C-2306 Payment and Receipt of Payment of the Trade Price**

The settlement value of maturing contracts will be included with other settlements on the daily Futures Consolidated Activity Report.

### **Section C-2307 Force Majeure or Emergency**

If settlement or acceptance or any precondition or requirement is prevented by *force majeure* or Emergency, the affected Clearing Member shall immediately notify the Exchange and the Corporation. If the Exchange and the Corporation decide that a *force majeure* or Emergency is in progress, by their own means or following the reception of a notice to this effect from a Clearing Member, they shall take all necessary actions in the circumstances and their decision shall be binding upon all parties to Futures

contracts on equity indices with Cash settlement in US Dollars affected by the *force majeure* or Emergency. Without limiting the generality of the foregoing, the Corporation may take one or many of the following measures:

- a) modify the Settlement Time;
- b) modify the settlement date;
- c) designate alternate or new settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or settlement process;
- d) fix a Settlement Price.

Neither the Exchange nor the Corporation shall be liable for any failure or delay in the performance of the Corporation's obligations to any Clearing Member if such failure or delay arises out of a *force majeure* or Emergency.

#### **Section C-2308 Currency**

All trading, settlement and variation margin requirements related to the Futures contracts on equity indices with Cash settlement in US Dollars takes place in United States funds. Initial margin requirements will be converted to Canadian funds at the Bank of Canada daily exchange noon rate. All clearing fees in relation to Futures contracts on equity indices with Cash settlement in US Dollars will be payable in Canadian funds.

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**CLEARING MEMBER SECURITY OFFICER**



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

**OPERATIONS MANUAL**

**VERSION OF JUNE 9~~MARCH 14~~, 2014**

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## CLEARING MEMBER SECURITY OFFICER

### 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.

Share futures 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, EMF, 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.





# Risk Manual

## STRESS SCENARIOS

The Corporation uses four stress scenarios to evaluate the biggest loss amongst all Clearing Members. This loss is utilized to determine the size of the Clearing Fund. A shortfall is equal to the difference between the loss incurred under a stress scenario, reduced of the Margin Fund and the Difference Fund, both belonging to the Clearing Member. By consequence, the size of the Clearing Fund should be at least equal to the greatest shortfall. The stress scenarios use end-of-month positions.

The four stress scenarios currently used by the Corporation are:

- Black Monday (1987)
- Financial Crisis (2008)
- Russian Default (1998)
- Bond Market Crash (1994)

The Corporation regularly assesses whether it is appropriate to add other stress scenarios to the existing scenarios.

The Corporation mostly stresses Futures contracts and Fixed Income Transactions that are considered to be the highest Initial Margin drivers, by historical stressful events. Note that for Fixed Income Transactions, the variations are based on the most representative Fixed Income Securities of each Bucket<sup>1</sup>. Here are the historical percentage variations applied:

Scenario 1 (Black Monday)			
	1987-10-16	1987-10-19	Variation
SXF <sup>TM</sup> – S&P/TSX 60 Index Standard Futures <sup>2</sup>	174.75	154.63	-11.51%
<a href="#">EMF<sup>TM</sup> – FTSE Emerging Markets Index Futures<sup>3</sup></a>	<a href="#">433.61</a>	<a href="#">289.09</a>	<a href="#">-33.33%</a>
BAX <sup>TM</sup> – Three-Month Canadian Bankers' Acceptance Futures <sup>4</sup>	90.81	90.69	-0.14%
CGB <sup>TM</sup> – Ten-Year Government of Canada Bond Futures <sup>5</sup>	74.40	76.93	3.40%

<sup>1</sup> Selected Government of Canada (GoC) Benchmark Bond yields

<sup>2</sup> The SXF contract has started trading in 1999. Thus, these prices represent the Futures Contract and not the S&P/TSX 60 Index, which is the Underlying Interest of the contract.

<sup>3</sup> [The EMF contract started being traded in 2014. Therefore, the prices indicated represent the FTSE Emerging Markets Index in US dollars, which is the underlying asset for the contract. Given that the FTSE Emerging Markets Index was launched in December 1993, the Hang Seng Index converted into US dollars was chosen as the replacement index for the purposes of the Black Monday scenario. Prices were harmonized to take into account the time zone.](#)

<sup>4</sup> The BAX contract was introduced in April 1988. Consequently, the historical price is obtained by using the 3 month US LIBOR interest rates.

Fixed Income Security Buckets			
0-3 months GoC yields			0.1857%
3-6 months GoC yields			0.4864%
6-12 months GoC yields			1.0164%
1-2 years GoC yields			1.1663%
2-3 years GoC yields			1.4660%
3-5 years GoC yields			1.7657%
5-7 years GoC yields			2.0654%
7-10 years GoC yields			2.3651%
10-15 years GoC yields			2.1761%
15-20 years GoC yields			2.1760%
20-30 years GoC yields			2.4687%
0-5 years Provincial yields			1.7657%
5-10 years Provincial yields			2.3651%
10-20 years Provincial yields			2.1760%
20-30 years Provincial yields			2.4687%
<b>Scenario 2 (Financial Crisis 2008)</b>			
	2008-10-17	2008-10-20	Variation
SXF <sup>TM</sup> – S&P/TSX 60 Index Standard Futures	568.5	622.7	9.53%
<a href="#">EMF<sup>TM</sup> – FTSE Emerging Markets Index Futures</a>	<a href="#">293.59</a>	<a href="#">288.84</a>	<a href="#">-1.62%</a>
BAX <sup>TM</sup> – Three-Month Canadian Bankers' Acceptance Futures	97.63	97.75	0.12%
CGB <sup>TM</sup> – Ten-Year Government of Canada Bond Futures	117.16	117.14	-0.02%
Fixed Income Security Buckets			
0-3 months GoC yields			-0.0056%
3-6 months GoC yields			0.0354%

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<sup>5</sup> The CGB contract was introduced in September 1989. Consequently, the theoretical price is obtained by calculating a 10-year bond, 6% coupon rate actualized with a 10-year Canadian Government rate extracted from an on-the-run Canadian Government Bond.

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6-12 months GoC yields			0.0719%
1-2 years GoC yields			0.1318%
2-3 years GoC yields			0.1635%
3-5 years GoC yields			0.1883%
5-7 years GoC yields			0.1247%
7-10 years GoC yields			0.0528%
10-15 years GoC yields			0.1163%
15-20 years GoC yields			0.1718%
20-30 years GoC yields			0.1491%
0-5 years Provincial yields			-0.0475%
5-10 years Provincial yields			-0.1232%
10-20 years Provincial yields			-0.3703%
20-30 years Provincial yields			-0.2787%
<b>Scenario 3 (Russian Default)</b>			
	1998-08-26	1998-08-27	Variation
SXF <sup>TM</sup> – S&P/TSX 60 Index Standard Futures	356.54	333.25	-6.53%
<a href="#">EMF<sup>TM</sup> – FTSE Emerging Markets Index Futures</a>	<a href="#">110.44</a>	<a href="#">108.99</a>	<a href="#">-1.31%</a>
BAX <sup>TM</sup> – Three-Month Canadian Bankers' Acceptance Futures	94.56	93.77	-0.84%
CGB <sup>TM</sup> – Ten-Year Government of Canada Bond Futures	122.15	121.3	-0.70%
Fixed Income Security Buckets			
0-3 months GoC yields			-0.2069%
3-6 months GoC yields			-0.3263%
6-12 months GoC yields			-0.5015%
1-2 years GoC yields			-1.0739%
2-3 years GoC yields			-1.0429%
3-5 years GoC yields			-1.3803%
5-7 years GoC yields			-0.8457%
7-10 years GoC yields			-1.4312%
10-15 years GoC yields			-1.5248%
15-20 years GoC yields			-1.2586%
20-30 years GoC yields			-1.3089%

0-5 years Provincial yields			-1.2163%
5-10 years Provincial yields			-1.7576%
10-20 years Provincial yields			-1.8987%
20-30 years Provincial yields			-1.4248%
<b>Scenario 4 (Bond Market Crash)</b>			
	1994-04-01	1994-04-04	Variation
SXF <sup>TM</sup> – S&P/TSX 60 Index Standard Futures	221.09	215.97	-2.32%
<a href="#">EMF<sup>TM</sup> – FTSE Emerging Markets Index Futures</a>	<a href="#">209.91</a>	<a href="#">205.21</a>	<a href="#">-2.24 %</a>
BAX <sup>TM</sup> – Three-Month Canadian Bankers' Acceptance Futures	93.53	92.92	-0.65%
CGB <sup>TM</sup> – Ten-Year Government of Canada Bond Futures	105.17	102.38	-2.65%
Fixed Income Security Buckets			
0-3 months GoC yields			0.0268%
3-6 months GoC yields			0.1060%
6-12 months GoC yields			0.1814%
1-2 years GoC yields			0.3710%
2-3 years GoC yields			0.4517%
3-5 years GoC yields			0.7702%
5-7 years GoC yields			0.6207%
7-10 years GoC yields			0.8582%
10-15 years GoC yields			1.0067%
15-20 years GoC yields			0.7665%
20-30 years GoC yields			0.5196%
0-5 years Provincial yields			-0.5813%
5-10 years Provincial yields			-2.6390%
10-20 years Provincial yields			-3.0077%
20-30 years Provincial yields			-3.4743%

The procedure to value the size of the Clearing Fund and the contributions of each Clearing Member is performed every month. As previously mentioned, the consideration of the results of the different stress scenarios leads the Corporation to select a stress factor<sup>6</sup>. Therefore, the stress factor depends on Clearing Members' positions (risk profile of each Clearing Member) that vary every day, and the Margin Intervals. After selecting the stress factor, the Corporation monitors and controls the level of the Clearing Fund throughout the month.

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<sup>6</sup> The stress factor generally has a value of 1.5, 2, 2.5 or 3. It is generally adjusted by 50% intervals.

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