



NOTICE TO MEMBERS

N°: 126-23

October 24, 2023

REQUEST FOR COMMENTS

AMENDMENTS TO RULES, OPERATIONS MANUAL, RISK MANUAL AND DEFAULT MANUAL OF CANADIAN DERIVATIVES CLEARING CORPORATION REGARDING THE IMPLEMENTATION OF THE SECURED GENERAL COLLATERAL (SGC) REPURCHASE TRANSACTION

On September 28, 2023, the Board of Directors of the Canadian Derivatives Clearing Corporation (“CDCC”) approved certain amendments to CDCC’s Rules, Operations Manual, Risk Manual and Default Manual in order to implement the secured general repurchase transaction program.

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 the Operations Manual 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 November 27, 2023. Please submit your comments to:

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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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For any question or clarification, Clearing Members may contact Martin Jannelle, Director, Business Advisory & Regulatory Affairs (Post-Trade), at 514-787-6578 or by email at martin.jannelle@tmx.com.

George Kormas
President



AMENDMENTS TO RULES, OPERATIONS MANUAL, RISK MANUAL AND DEFAULT MANUAL OF CANADIAN DERIVATIVES CLEARING CORPORATION REGARDING THE IMPLEMENTATION OF THE SECURED GENERAL COLLATERAL (SGC) REPURCHASE TRANSACTION

I. DESCRIPTION

On May 16, 2022, the Canadian Dollar Offered Rate's ("CDOR") regulated administrator announced that it would cease the publication of CDOR after June 28, 2024¹.

The Bank of Canada expects the cessation of CDOR's publication to lead to the discontinuance of lending based on Bankers' Acceptances ("BA" or "BAs")². In their review of the impact of CDOR cessation of the BA market, the Bank of Canada noted that BAs are important short-term Canadian dollar money market assets, currently comprising about 20% of the notional outstanding in the Canadian money market, valued at approximately C\$90 billion³. BAs are "the second largest money market instrument after Government of Canada treasury bills"⁴. The Bank of Canada also highlighted the importance of expanding products within the money market space, "including through the development of new types of investment products" as they will "play an important role in facilitating an orderly transition away from BAs as a result of the CDOR cessation"⁵.

The Canadian Derivatives Clearing Corporation ("CDCC") has developed a solution to offer a viable alternative to BAs using its clearing services. Secured General Collateral ("SGC") Notes ("SGC Notes") have been developed as an investment alternative which can offer a balance between Clearing Members' funding needs and investors' preferences with respect to yield, term, credit quality, adequacy of risk management, and liquidity.

As further described in this analysis, the commercial design of the SGC Notes relies on the central counterparty role of CDCC and other activities of CDCC in the context of a repurchase transaction program (the "Program").

Unless otherwise defined herein, any defined term used in this analysis will have the meaning described in the CDCC Rules and Operations Manual (hereinafter the "CDCC Rules") including the CDCC Rules amended hereunder that contemplate the implementation of the Program.

¹ https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/cdor-cessation-notice.pdf

² <https://www.bankofcanada.ca/wp-content/uploads/2023/01/whitepaper-impact-of-cdor-cessation-on-bankers-acceptance-market.pdf>

³ Ibid.

⁴ Ibid.

⁵ Ibid.

WHAT ARE THE SGC NOTES?

The SGC Notes will be (i) issued by a special purpose vehicle (the “**Trust**”), (ii) non-interest bearing and (iii) secured by a pool of collateral consisting of highly rated and liquid debt securities (the “**SGC Securities**”⁶) selected by CDCC pursuant to specified eligibility criteria aligned with the Bank of Canada SLF policy (securities listed as collateral under the Bank of Canada’s Standing Liquidity Facility as published on the Bank of Canada’s website), including haircuts requirements (the “**SGC Initial Securities Adjustments**”⁷). The SGC Notes will be issued under a trust indenture entered into between the Trust, its trustee, and an indenture trustee (as amended, supplemented or modified from time to time, the “**Trust Indenture**”). The SGC Notes will be issuable in different series (each, a “**Series**”) designated separately for each clearing member (each, an “**SGC Clearing Member**”) of CDCC which is authorized to clear SGC Repurchase Transactions⁸. Each Series will be secured by a separate basket of SGC Securities (a “**SGC Securities Basket**”) sold by the SGC Clearing Member to the Trust through the SGC Repurchase Transactions. All SGC Securities Baskets will be comprised of the same types of securities but will be distinguished by separate SGC Initial Securities Adjustments and SGC Concentration Limits⁹. Please note that CDCC will initially launch a single SGC Securities Basket, which means that all SGC Notes issued by a single SGC Clearing Member will belong to a unique segregated pool of SGC Securities. Each Series of SGC Notes will be issued under an indenture supplement to the Trust Indenture. The Trust will be established pursuant to a declaration of trust under the laws of the Province of Ontario (the “**Declaration of Trust**”) by its trustee.

The SGC Notes will be offered with different terms to maturity for tranches (“**Tranches**”) within each Series, for terms of month (one month, two, three, six or twelve months (and in no event greater than 365 days) on any business day. The SGC Notes will be issued in book-entry form and will be available in minimum denominations of \$100,000 and in integral multiples of \$100,000, in CAD. A subscription and repurchase terms agreement will be entered into between the Trust and each SGC Clearing Member (the “**Subscription and Repurchase Terms Agreement**”) pursuant to which the SGC Clearing Member will be able to subscribe for Tranches of SGC Notes of Series applicable to such SGC Clearing Member by sending a subscription request to the Trust in accordance with the Subscription and Repurchase Terms Agreement. The SGC Notes will be repaid at maturity to holders of the SGC Notes (“**Noteholders**”) at a principal payment amount equal to the face amount of the SGC Notes with no early redemption.

The SGC Notes will be subscribed for by “**SGC Clearing Members**” which are Canadian Banks and Canadian registered investment dealers that are members of the Canadian Investment Regulatory Organization and that qualify as SGC Clearing Members under the proposed CDCC Rules. The SGC Clearing Members will purchase the SGC Notes as principals and may offer the SGC Notes for sale to investors if, as and when issued by the Trust and accepted by the SGC Clearing Members according to the

⁶ “**SGC Securities**” – means SLF Securities except those securities specifically added or excluded by CDCC from time to time as disclosed on CDCC’s website and in the Offering Memorandum.

⁷ “**SGC Initial Securities Adjustments**” means the margins published by Bank of Canada for SLF Securities on the Bank of Canada website, as adjusted by CDCC from time to time for the SGC Securities included in each SGC Securities Basket as published on CDCC website.

⁸ “**SGC Repurchase Transaction**” - means a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, in which the SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member, with a simultaneous agreement by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust, and governed by this Rule D-7

⁹ “**SGC Concentration Limits**” means the concentration limits determined by CDCC from time to time for the SGC Securities included in each SGC Securities Basket, as published on CDCC’s website.

terms of the Subscription and Repurchase Terms Agreement on a private placement basis to “accredited investors” as defined in NI 45-106 “Prospectus Exemptions” and to “permitted clients” as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (“**NI 31-103**”) which are not individuals, in reliance on exemptions from the prospectus requirements of applicable provincial securities laws.

THE SGC REPURCHASE TRANSACTIONS

This analysis describes the mechanism pursuant to which the SGC Notes will be secured and which requires amendments to CDCC Rules and the Operation Manual.

The SGC Securities which will secure the SGC Notes will be sold by an SGC Clearing Member to the Trust pursuant to the Program. Based on the terms and conditions of the Subscription and Repurchase Terms Agreement, the SGC Clearing Member will enter into a bilateral repurchase transaction with the Trust in relation to specified SGC Securities concurrently with sending a subscription request for a Tranche of SGC Notes to the Trust. The term of the bilateral repurchase transaction will match the term of the Tranche of the SGC Notes subscribed for and the market value of the SGC Securities sold (subject to over-collateralization) by the SGC Clearing Member will match the aggregate principal amount of the SGC Notes of the Tranche.

The Trust and the SGC Clearing Member will then submit the bilateral repurchase transaction to CDCC to clear as a central counterparty in accordance with the proposed CDCC Rules. When CDCC accepts the bilateral repurchase transaction for clearing, the bilateral repurchase transaction is novated and its terms and conditions are replaced by the SGC Repurchase Transaction terms and conditions set out in the proposed CDCC Rules. At the maturity date of the Tranche, the Trust is required, under the SGC Repurchase Transaction, to return SGC Securities of equivalent value to the SGC Clearing Member through CDCC. All SGC Securities required for over-collateralization or substituted for the original SGC Securities sold under the SGC Repurchase Transaction (as further explained herein) will also be sold and repurchased under the same SGC Repurchase Transaction and cleared through CDCC. The Program will be automated through the Canadian Collateral Management Service (“**CCMS**”) offered by TMX Post-Trade Innovations Inc. for collateral management and optimization.

II. PROPOSED AMENDMENTS AND RISK MANAGEMENT OBJECTIVES

The SGC Securities which will secure the SGC Notes will be sold by an SGC Clearing Member to the Trust pursuant to the Program. Under this Program, CDCC has two roles when clearing the SGC Repurchase Transactions: (1) a role as a central counterparty when clearing the SGC Repurchase Transactions and, (2) a role as administration agent and custodian on behalf of the Trust.

First, when an SGC Clearing Member and the Trust submit the bilateral repurchase transaction agreed to upon a subscription for a Tranche of SGC Notes to CDCC for clearing and CDCC accepts the bilateral repurchase transaction, the bilateral repurchase transaction is novated to CDCC and its terms and conditions are replaced with the SGC Repurchase Transaction terms and conditions set out in the proposed CDCC Rule D-7 during the clearing process. Novation means that parties in a contract are replaced with different parties so that in the case of the open leg of the SGC Repurchase Transaction, CDCC becomes the buyer to the seller (the SGC Clearing Member in the open leg) and the seller to the buyer (the Trust, in the open leg). In the close leg of the SGC Clearing Transaction, CDCC becomes the seller to the buyer (the SGC Clearing Member) and the buyer to the seller (Trust).

Second, CDCC acts as administration agent and custodian for the Trust and holds, on behalf of the Trust, the SGC Securities positions in the accounts of CDCC and at CDS during the clearing process and during the open leg of an SGC Repurchase Transaction, acts as custodian of the Trust, holding the SGC Securities transferred by the SGC Clearing Member. These roles are attributed to CDCC pursuant to a Trust Administration and Custodian Agreement to be entered into between the Trust, acting through its trustee, and CDCC. However, it is relevant to indicate to the readers that when the Trust does any action pursuant to the proposed CDCC Rules, the Trust is always acting through its administration agent, CDCC.

Finally, CDCC will also add the SGC Notes as new eligible Fixed Income Securities under its current Fixed Income Transactions service, subject to the existing rules. However, as further described below, CDCC will clarify its rights and obligations in the event CDCC determines, under Rule D-6, that it is unable to calculate a Market Value for any Acceptable Security because no price source quotations or alternative market information acceptable to CDCC is available for a period of time. CDCC was of the view that such clarification was now needed with the addition of the SGC Note as new eligible Fixed Income Securities.

A) Eligibility of SGC Clearing Members

Proposed Rule D-7 sets out the eligibility criteria for an SGC Clearing Member, which include meeting the eligibility criteria for Fixed Income Clearing Members which are permitted to clear bilateral repurchase transactions on single bonds under Rule D-6 of CDCC, and maintaining (or having an Affiliate maintain) a designated credit rating¹⁰ that will enable the SGC Notes to be rated at an appropriate level for institutional investors as an alternative to BA's. Under Rule D-7, an SGC Clearing Member represents that in respect of CCMS (i) it is authorized to use CCMS (ii) it has configured its CCMS set-up to allow for entering into SGC Repurchase Transactions and the transfer of SGC Securities through CCMS, including any SGC Securities required under SGC Securities Adjustments or as a result of Substituted SGC Securities and (iii) at all times, it will make available sufficient SGC Securities in its designated CDS securities account to effect and complete all SGC Repurchase Transactions, any SGC Securities Adjustments and any transfers of Substituted SGC Securities including compliance with any over-collateralization (or "SGC Initial Securities Adjustment")¹¹ will also be sold and repurchased under the same SGC Repurchase Transaction and cleared through CDCC. If an SGC Clearing Member fails to make available sufficient SGC Securities to the Trust for any SGC Repurchase Transaction in accordance with Rule D-7, the SGC Clearing Member will be in default under all SGC Repurchase Transactions relating to the particular SGC Securities Basket to which the failure to deliver SGC Securities relates and, if not otherwise a Non-Conforming Member, will become a Non-Conforming Member under the CDCC Rules.

B) Open Leg of cleared SGC Repurchase Transaction

As previously indicated, the Trust and the SGC Clearing Member will submit the bilateral repurchase transaction entered into under the Subscription and Repurchase Terms Agreement to CDCC for clearing as central counterparty in accordance with the proposed CDCC Rules.

When CDCC accepts the bilateral repurchase transaction for clearing, the bilateral repurchase transaction is novated and its terms and conditions are replaced by the SGC Repurchase Transaction

¹⁰ An SGC Clearing Member shall maintain at all times a rating by at least two Designated Rating Organizations that are at or above: DBRS AA-, S&P AA-, Moody's Aa3, and/or Fitch AA- equivalent.

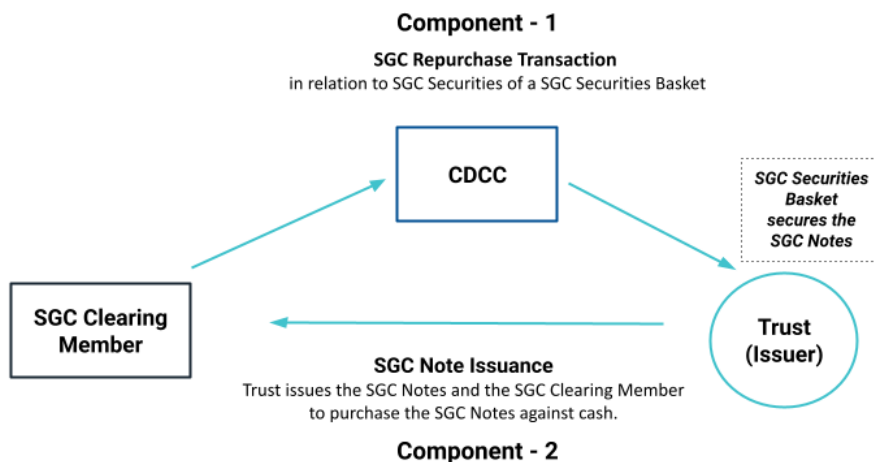
¹¹ SGC Initial Securities Adjustment acts in the same manner as the initial margin, but it is a specific term used in the context of the Secured General Collateral (SGC) Repurchase Transaction. More specifically, initial margin refers to the concept of haircuts.

(refer to “Component-1” in Diagram 1 below) terms and conditions set out in the proposed CDCC Rules. CDCC becomes the buyer to the seller, the SGC Clearing Member, and the seller to the buyer, the Trust, while the SGC Repurchase Transaction is cleared. On the purchase date, the SGC Clearing Member, through CCMS, must make available SGC Securities in its general securities account with CDS with a market value equal to the face value of the Tranche of SGC Notes to be subscribed (together with any additional SGC Securities required for over-collateralization, or SGC Initial Securities Adjustment). Upon novation, the SGC Securities are transferred to a common CDCC general account dedicated to the Program in CDS and CDCC, as central counterparty, uses liquidity available to it to transfer cash in an amount equal to the purchase price for the SGC Securities from its funds account in CDS to the funds account in CDS of the SGC Clearing Member. The SGC Securities are then transferred by CDCC from its general account dedicated to the Program in CDS to a segregated account maintained by CDCC in CDS, in its capacity as administrative agent and custodian for the Trust.

Concurrently, in a separate transaction (refer to “Component-2” in Diagram 1 below) not involving CDCC as a central counterparty, the SGC Note is issued to the SGC Clearing Member. In fact, the Trust issues the Tranche of the Series of SGC Notes and the SGC Clearing Member uses funds in its funds account in CDS to purchase the SGC Notes for which it has subscribed. In this process, CDCC, as administrative agent of the Trust, transfers the subscription price for the Tranche of the Series of SGC Notes received from the SGC Clearing Member to CDCC’s funds account in CDS to complete the payment by the Trust of the Purchase Price for the SGC Securities Purchased by it pursuant to the SGC Repurchase Transaction.

For greater certainty, the proposed CDCC Rules do not contain any provisions with respect to the issuance of the SGC Notes. These provisions will be made available to investors through marker-standard documentation. The proposed CDCC Rules, and this analysis, only cover the activities of CDCC as a central counterparty.

Diagram 1



C) Close Leg of Cleared SGC Repurchase Transactions

On the maturity date (which mirrors the maturity date of the Tranche of the Series of SGC Notes) the Trust is required under the SGC Repurchase Transaction to return SGC Securities of equivalent value to the SGC Clearing Member through CDCC.

CDCC will use liquidity available to it to repurchase the SGC Securities from the Trust at the repurchase price. The cash remains in the funds account of CDCC at CDS but CDCC no longer holds such cash as central counterparty but rather as administrative agent and paying agent of the Trust. The SGC Securities are transferred in CDS from the Trust's segregated account maintained by CDCC in CDS as the Trust's administrative agent and custodian to the general account maintained by CDCC in CDS for the Program. CDCC sells the SGC Securities to the SGC Clearing Member which repurchases the SGC Securities from CDCC at the repurchase price. The SGC Securities are transferred from CDCC's general account maintained in CDS for the Program to the SGC Clearing Member's general account in CDS. The cash for the repurchase price is transferred from the SGC Clearing Member's funds account in CDS to CDCC's funds account in CDS.

Finally, CDCC, as agent for the Trust, uses the proceeds in connection with the unwind of the SGC Repurchase Transaction to repay the Tranche of the Series of SGC Notes to the Noteholders.

D) Substitution

CDCC may, in accordance with the optimization process in CCMS, require the substitution of SGC Securities for "Substituted SGC Securities" and may, at the request of an SGC Clearing Member, permit the SGC Securities to be replaced by "Substituted SGC Securities" during the term of the SGC Repurchase Transaction. Any substitution would need to comply with the SGC Securities Basket criteria such as SGC Concentration Limits and any additional SGC Securities Adjustment if required.

E) Risk Management Objectives

i) Membership and monitoring:

In order to enter into an SGC Repurchase Transaction, an SGC Clearing Member must be approved by CDCC to act as a Fixed Income Clearing Member pursuant to Part A of CDCC Rules. In addition:

- **Minimum Credit Rating:** An SGC Clearing Member shall maintain at all times a rating by at least two Designated Rating Organizations that are at or above the following: DBRS AA-, S&P AA-, Moody's Aa3, and/or Fitch AA- equivalent.
- **Credit Rating Downgrade:** In the event an SGC Clearing Member fails to maintain the above-required credit ratings, CDCC will not accept for clearing any new SGC Repurchase Transactions. Notwithstanding the foregoing, all SGC Repurchase Transactions that have already been novated to CDCC prior to the change of rating will not be affected.

ii) Over-collateralization and Adjustments for SGC Securities

All SGC Securities required for over-collateralization, as “SGC Initial Securities Adjustment”, will also be sold and repurchased under the same SGC Repurchase Transaction and cleared through CDCC. The Program will be automated through CCMS.

The SGC Noteholders will be protected and benefit from such over-collateralization; however, in the event of an SGC Clearing Member default, any shortfall beyond the liquidation of the SGC Securities would result in a reduction of the SGC Note principal repayment.

In light of the over-collateralization, SGC Securities required to secure the SGC notes and to be managed by the SGC Clearing Member via CCMS must correspond to the aggregate principal amount of the SGC Notes of the Tranche. Moreover, the SGC Securities and the SGC Initial Securities Adjustments (or haircuts) will be based on the securities and haircuts listed under the Bank of Canada’s Standing Liquidity Facility as published on the Bank of Canada’s website. CDCC will monitor the list of eligible securities and haircuts and if required review the list of securities and the selection of the haircuts in order to keep these product features aligned with the product specifications.

As part of the SGC Repurchase Transactions, haircuts play an important role by providing an additional layer of protection in cases where CDCC would have to realize the values of the SGC Securities. In contrast to other products managed by CDCC where the Clearing Fund can be used to provide additional prefunded resources, the SGC Notes strictly rely on the liquidation value of the SGC securities. In other words, if an SGC Clearing Member defaults under an SGC Repurchase Transaction for a particular Series of SGC Notes and becomes a Non-Conforming Member (as defined in the CDCC Rules), only the proceeds obtained upon the liquidation of the SGC Securities in the SGC Securities Basket related to the Series will be available to repay the outstanding Note Balance of the Series.

Based on the foregoing, CDCC proposes to add an additional layer of securities adjustment to the SGC Repurchase Transactions risk architecture. During the term of the SGC Repurchase Transaction, SGC Securities are transferred from the SGC Clearing Member to the Trust or from the Trust to the SGC Clearing Member as required to take into account fluctuations in the market value of the SGC Securities of the SGC Securities Basket to which the SGC Repurchase Transaction relates. Under the proposed CDCC Rule D-7, these transfers are called “SGC Securities Adjustments”, and result from the application by CDCC of haircuts and are cleared under the same SGC Repurchase Transaction. The SGC Clearing Member must make available additional SGC Securities in CCMS when the market value of the SGC Securities Basket decreases and the Trust must return SGC Securities when the market value increases and there is an excess. The CDCC Rules also enforce the application by the CDCC of variation margin on an intraday basis. Intraday updates may allow for more frequent updates of the SGC Securities prices throughout the business day.

iii) Intraday Liquidity Management

The Program contains two features that assist CDCC with its intraday liquidity management. First, when an SGC Clearing Member enters into an SGC Repurchase Transaction (i.e. on the day SGC Notes are issued) CDCC will require the SGC Clearing Member to provide collateral in the form of SGC Securities with a value sufficient to permit CDCC to subsequently provide collateral (defined as “ACV Securities”) to CDS to secure CDCC’s obligations (on behalf of the Trust) to CDS in respect of the ACV requirements

required by CDS under its Rules. These ACV Securities are only required on the issuance day of the SGC Notes and could be withdrawn the same day.

Second, CDCC (as a central counterparty and on behalf of the Trust, as the case may be) will also use its intraday line of credit when purchasing and repurchasing SGC Securities. CDCC will do so in various “clips”. Clips are predetermined increment amounts (for example, \$25MM¹²) pursuant to which CDCC will receive the SGC Securities and/or perform any payment for SGC Securities. Hence, upon settlement of a clip with the SGC Clearing Member (for example, SGC Clearing Member providing \$25MM worth of SGC Securities versus CDCC paying \$25MM for these SGC Securities), CDCC will initiate the following clip (exchange of SGC Securities versus cash for the same predetermined amount (\$25MM)) until the full requested principal amount of the SGC Note is settled or the SGC Note is repaid in full at maturity, as the case may be.

iv) Default Management

As required by Principle 13 of the Principles for Financial Market Infrastructures (“**PFMI**”), triggers for the Non-Conforming status or suspension of an SGC Clearing Member are defined in proposed Rule D-709 and further described in the proposed Section 1.2 of CDCC Default Manual. These default triggers include failure by an SGC Clearing Member to :

- (i) make payment prior to the SGC Maturity Settlement Time for repurchase of SGC Securities of the Close Leg of an SGC Repurchase Transaction; or
- (ii) complete a required SGC Securities Substitution and/or an SGC Securities Adjustment by the SGC Securities Adjustment Settlement Time to ensure adequate over-collateralization of SGC Clearing Member’s outstanding SGC Note Series; or
- (iii) meet its obligations in another CDCC service.

The key enforcement actions for CDCC to take following an SGC Clearing Member suspension are to restrict that SGC Clearing Member from initiating new SGC Repurchase Transactions and to liquidate, on behalf of the Trust, all SGC Securities provided by the suspended SGC Clearing Member to secure its outstanding SGC Note Series. At the onset of a Default Management Period involving an SGC Clearing Member, CDCC, acting as agent for the Trust, would liquidate SGC Securities supporting the suspended SGC Clearing Member’s SGC Notes. As a result, the Trust will also accelerate the maturity of all outstanding Tranches of a suspended SGC Clearing Member’s SGC Note Series benefiting from the same SGC Securities Basket making the maturity value due and payable upon liquidation of underlying SGC Securities.

Liquidation strategy

In order to maximize on a reasonable efforts basis liquidation value of SGC Securities, CDCC will deploy two liquidation strategies which are 1) the SGC Securities Default Auction process and 2) the specialist broker sale (outlined in CDCC Default Manual proposed Section 1.6.6 in compliance with PFMI Principle 13). Brokers (who are also CDCC Clearing Members) will submit their best offers received from their clients for the SGC Securities during the SGC Securities Default Auction process along with other Fixed Income Clearing Members electing to participate in the Default Auction of SGC Securities.

¹² The selected value for the clips will be communicated via the CDCC website and is subject to performance testing.

Settlement for the SGC Securities contained in the Auction Portfolio

After the end of the SGC Securities Default Auction, the prevailing bidders are responsible to creating and executing purchase transactions for DVP settlement in CDS for the SGC Securities contained in the Auction Portfolio for which the Clearing Member was the Prevailing Bidder. Any failure by the Prevailing Bidder to complete any SGC Securities purchase transactions or meet any obligations associated with the SGC Securities Default Auction will be deemed a breach of obligations by the Clearing Member under CDCC Rules. CDCC will transfer proceeds from the SGC Securities liquidation and to the Trust's liquidation settlement account.

F) Adding SGC Notes as a new eligible security under the current Fixed Income Securities service

In addition to the previous section describing the business proposal for the SGC Notes and SGC Repurchase Transactions, CDCC wishes to add the SGC Notes to the existing list of eligible Fixed Income Securities. SGC Notes will be issued by the Trust at the request of a newly created class of Clearing Members which will secure the repayment of the SGC Notes via the Program. The SGC Notes will complement the current product offering and allow Clearing Members who are not designated as SGC Clearing Members to participate in the secondary market by setting up trades with the SGC Notes as Purchased Securities. CDCC will allow Fixed Income Clearing Members to book trades with the same economic terms as the current Fixed Income Transactions.

In terms of model change for the Base Initial Margin, CDCC will create one new VaR Risk Group for each SGC Clearing Member. The risk design for these new risk groups will follow the same concept as the VaR methodology for the Government of Canada bonds and Provincial Government bonds. In other words, the margin requirement will be kept separated at the sponsor level (i.e. SGC Clearing Member) and therefore no margin netting will be possible between Fixed Income Securities issued by different SGC Clearing Members. In order to determine an appropriate margin level for the SGC Notes, the VaR methodology will take into consideration the specific risk factors linked to the SGC Notes, i.e. the credit spread attached to both the credit of the SGC Clearing Members and the product specifications. More specifically, the additional risk factors will be taken into account in the calculation of the profit-and-loss at the portfolio level through a full repricing methodology.

CDCC is not proposing any changes to the remaining risk methodologies. The SGC notes will be treated in the same manner as the other Fixed Income Transactions.

Finally, the proposed amendments to Rule D-6 add provisions assisting CDCC in the event CDCC has no price source for an SGC Note Series following an SGC Clearing Member suspension. In fact, in such a situation, CDCC would be unable to determine the Variation Margin required for the repurchase transaction with the SGC Note as underlying (defined as "SGC Note Repurchase Transactions" in the proposed amendments) on that SGC Note Series. Treatment would be different depending on the timing of the SGC Securities liquidation date in relation to the Repurchase Dates:

- SGC Note Repurchase Transactions with Repurchase Dates that fall before the SGC Securities liquidation date will settle for an amount equal to the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction. Most SGC Note Repurchase Transactions are expected to fall into this category.

- SGC Note Repurchase Transactions that have repurchase dates on the SGC Securities liquidation date will settle for the net difference of cash liquidation value of the SGC Note and the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction
- SGC Note Repurchase Transactions that have repurchase dates after the liquidation date of the SGC Securities will settle for an amount equal to the net difference of the cash liquidation value of the SGC Notes and the “Adjusted SGC Notes Repurchase Price¹³” to reflect that no Repo Rate is payable after the termination date of the SGC Note Repurchase Transaction.

G) Summary of Proposed Amendments

i) New Rule D-7

The proposed Rule D-7 will contain the following provisions:

- **Section D-701:** The definitions contain very important concepts: (1) the definition of an SGC Repurchase Transaction and the various terms and conditions, timelines and periods associated to it; (2) the SGC Securities, the SGC Initial Securities Adjustment (haircuts), SGC Securities Adjustment (similar to variation margin) and SGC Concentration Limits applicable to the them; and (3) and terms associated with the SGC Notes and related documentation.
- **Section D-702:** It is essential to provide the Clearing Members with clear rules. This section of Rule D-7 indicates which provisions of Part A of the CDCC Rules are applicable to SGC Clearing Members in their capacity as “Fixed Income Clearing Members”, and which provisions of Part A of the Rules that are not applicable to the SGC Clearing Members (in such capacity) and to the SGC Repurchase Transactions.
- **Section D-703:** This section lists the eligibility criteria for a Clearing Member to become an “SGC Clearing Member” and also indicates the consequences if, for any reasons whatsoever, the SGC Clearing Member fails to maintain the required rating. In such a case, CDCC will not accept for clearing any new SGC Repurchase Transactions, but will resume the clearing of new SGC Repurchase Transactions once the SGC Clearing Member or its Affiliate meets the required rating. Such a failure to maintain the required rating will not affect any SGC Repurchase Transactions that have already been novated to CDCC prior to the change of rating.
- **Section D-704:** This section refers to representations and warranties made by the SGC Clearing Member when entering into an SGC Repurchase Transaction, including the provision of collateral with a value sufficient to permit CDCC to provide collateral to CDS to secure CDCC’s obligations to CDS in respect of the ACV requirements applicable to CDCC as a CDS Participant.
- **Section D-705:** This section contains information regarding the submission, reception and validation of the SGC Repurchase Transaction.
- **Section D-706:** This section, similar to the provisions found in Rule D-6 of the Rules, provides for the terms of “novation” of the bilateral repurchase transaction entered into between the Trust and the SGC Clearing Members and submitted to CDCC for clearing.
- **Section D-707:** This section provides for the rules applicable to the SGC Securities Adjustments which will be processed through CCMS, and are similar to “variation margins” rules found elsewhere in CDCC Rules including Rule D-6.
- **Section D-708:** This section provides for rules applicable to the substitution of SGC Securities, which will be automated through CCMS.

¹³ “Adjusted SGC Notes Repurchase Price” - means the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction adjusted to reflect that no Repo Rate is payable after the termination date of the SGC Note Repurchase Transaction.

- **Section D-709:** Finally, this section provides in general terms the rights of CDCC if there is a default from the SGC Clearing Member under an SGC Repurchase Transaction.

ii) Revised Rule D-6

In the context of the SGC Notes being subject to repurchase transactions under the existing Rule D-6, CDCC was of the view that Rule D-6 needed to be amended to provide guidance in the event CDCC determines that it is unable to calculate the market value for any "Acceptable Security" including, without limitation, any SGC Notes, because no price source quotations or alternative market information acceptable to CDCC is available. As result, CDCC will now be able to take any measure and action available to CDCC in relation to the Repurchase Transactions for Purchased Securities for which there is an Unavailable Price Source including terminating such Repurchase Transactions.

With respect to the SGC Note, CDCC proposes alternatives to the repurchase price as follows:

- for all SGC Repurchase Transactions for which the repurchase date falls before the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, the price alternative will be an amount equal to the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction;
- for all SGC Repurchase Transactions for which the repurchase date falls on the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, the alternative price will be an amount equal to (y) the net difference of the cash liquidation value of the SGC Notes and (z) the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction; and
- for all SGC Repurchase Transactions for which the repurchase date falls after the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, an amount equal to (y) the net difference of the cash liquidation value of the SGC Notes and (z) the "Adjusted SGC Notes Repurchase Price" For this new rule, the term "Adjusted SGC Notes Repurchase Price" is defined as the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction adjusted to reflect that no Repo Rate is payable after the termination date of the SGC Note Repurchase Transaction.

iii) Operations Manual

The Operations Manual will contain amendments to the following provisions:

- **Section 2:** This section will include impacts on daily operational schedule in relation to SGC
- **Section 3:** This section will be amended to include additional SGC reports
- **Section 4:** The modifications to this section will bring clarity on Trade Processing with CCMS
- **Section 6 and Section 7 :** These sections will include additional definitions and refer to SGC Securities adjustments requirements

iv) Risk Manual

The proposed Risk Manual will contain the following provisions:

- **Section 2:** This section contains information regarding the SGC Securities Initial Adjustment, SGC Securities Adjustment and the Credit Rating Downgrade of an SGC Clearing Member.

- **Section 4.4:** This section provides for the Acceptable Underlying Interests of Cash Buy or Sell Trades; CDCC will add the SGC Notes to the list.

v) **Default Manual**

The proposed changes to the CDCC Default manual will contain the following provisions:

- **Section 1: Default Management Process - Triggers And Implementation:** added new reference to Rule D7 - Clearing of SGC Repurchase Transactions.
- **Section 1.1: Objective Of Default Management:** New objective for SGC Repurchase Transactions to obtain the best available market price for SGC Securities by executing a timely liquidation process.
- **Section 1.4.4: Enforcement Actions Pursuant To Suspension:** A clause for CDCC to liquidate all SGC Securities, on behalf of the Trust, is added. A restriction for a suspended SGC Clearing Member from initiating new SGC Repurchase Transactions is also added.
- **Section 1.6.6: Application Of Financial Resources To Cover Sgc Repurchase Transaction Default-Related Losses:** CDCC's objective to maximize the available liquidation value of the SGC Securities, through the use of Default Auction and/or broker sale. Outstanding losses after the liquidation of SGC Securities are to be absorbed by the holders of the SGC Note. No Clearing Fund and Supplemental Liquidity Fund contributions for SGC Repurchase Transactions. No access to the CDCC's Default Risk Capital for SGC Repurchase Transactions.
- **Section 1.2: Liquidation:** Default Auction and/or broker sale to be used to obtain the best available liquidation value. Bids to be compared from each source and the prevailing bid to be accepted.
- **Section 1.3: Default Auction:** CDCC may also choose to organize one or more Default Auctions in order to liquidate all the SGC Securities.
- **Subsection 1.1.1.1: Invitation To Participate In The Auction:** All SGC Clearing Members and any other Fixed-Income Clearing Members to be invited to participate in the Auction
- **Subsection 1.1.1.3: Allotment Of Financial Resources To Portfolio Incentive Pools:** Portfolio Incentive Pool is not applicable to SGC Securities Auction Portfolios.
- **Subsection 1.1.2.3: Bidding Process:** For SGC Securities Default Auctions, Auction Participants must submit bids by specifying a purchase price for each SGC Securities Auction Portfolio. Brokers participating in SGC Securities Default Auction may be permitted to share Default Auction information including bidding files with Clients and submit bids on behalf of Clients. Clearing Members acting as brokers must maintain clarity of broker role versus role of bidding for their own or an affiliate's account. Client bidding information not be shared with personnel who bid on behalf of the Clearing Member's own or affiliate's account.
- **Subsection 1.1.2.4: Prevailing Bidder Determination:** Winner for each Auction Portfolio to be determined on the basis of the highest purchase amount for all the SGC Securities associated with that SGC Securities Auction Portfolio.
- **Subsection 1.1.3 : Post Auction Procedure:** For SGC Securities Default Auction, the bidding incentive category is not applicable as no Prefunded Financial Resources will be available for loss absorption.
- **Subsection 1.1.4 Post SGC Securities Default Auction Procedure:** The prevailing bidder will be responsible for creating and executing purchase transactions for DVP settlement in CDS for the SGC Auction Portfolio securities. Any failure by the prevailing bidders to complete their obligations will make them liable for all fees, expenses and obligations. CDCC to notify all Clearing Members of the successful completion, or failure, as the case may be, of the Default Auction.
- **Section 1.3: Liquidity Management:** Standard CDCC Clearing Member default liquidity management tools and facilities are not available for an SGC Securities Default.

- **Section 1.4: Loss Allocation Methodology:** Standard CDCC Clearing Member loss allocation methodology is not applicable following an SGC Securities Default Auction.

III. ANALYSIS

a. Comparative Analysis

To CDCC's knowledge and after reasonable due diligence of its peers' activities and the clearinghouse market generally, there are no exchanges' or central counterparties' products directly comparable to SGC Notes (and to the SGC Repurchase Transactions) since such SGC Notes are very specific to the Canadian context of BAs replacement. To this end, potential alternative products to BAs have been proposed in the latest update from the BA Transition Virtual Network in September 2023¹⁴. As existing alternatives, the Network committee lists the following: Bearer Deposit Notes, Term Reverse Repo and Asset-Backed Commercial Paper. As new initiatives, the Network committee refers to the following: Floating rate BDNs, Government of Canada 1-month treasury bill and secured notes backed by a basket of collateral (including the SGC Notes).

From a clearinghouse perspective, the SGC Repurchase Transaction concept is also novel since it is created for a very specific purpose: securing notes through the governance and risk architecture of a central counterparty. The "repo transaction" itself has no purpose outside of the Program.

b. Analysis of Impacts

i. Impacts on Market

SGC Repurchase Transactions

Based on a survey conducted in early April 2023 by CFIF and CARR (and as updated by the "BAVN" (BA Transition Virtual Network, September 2023), "the overall gap in potentially investable short-term money market products is about C\$20 billion once BAs cease to be issued after June 2024. However, this gap is especially apparent in the 1-month and under maturity bucket at C\$45 billion"¹⁵.

Based on this gap estimate and following market consultation conducted by CDCC, the target market share estimated for SGC Notes as a potential alternative product to BAs is approximately C\$20 billion, mainly for the 1-month term. This means that most of the SGC Repurchase Transactions will be for a 1-month term and rolled over the following month, to issue new SGC Notes for a similar 1-month term. Since these SGC Repurchase Transactions are not subject to any loss mutualisation, there will be no impact on the current CDCC credit and liquidity fund. In terms of margin impact, as mentioned previously, during the term of the SGC Repurchase Transaction, SGC Securities are transferred from the SGC Clearing Member to the Trust or from the Trust to the SGC Clearing Member as required in order to meet any SGC Securities Adjustment and SGC Concentration Limits.

Fixed Income Transactions on SGC Notes

As stated in the introduction, CDCC has developed a solution that can offer a viable alternative to BAs using its clearing services. Considering the nature of the product and the investors' preferences, the impact on the financial market is expected to be driven by the evolving market conditions and the level of acceptability from an investor's perspective. That being said, CDCC expects minor incremental changes

¹⁴ <https://www.bankofcanada.ca/wp-content/uploads/2023/09/ba-transition-virtual-network-progress-update.pdf>

¹⁵ Ibid.

on the level of margin requirement and clearing fund due to the low relative overall weight of the Fixed Income Transactions in the overall CDCC Clearing activities. Despite a small anticipated impact on the level of prefunded resources, it is important to note that the new SGC Notes will follow the same level of segregation as the other admissible Fixed Transactions.

ii. Impacts on Technology

The implementation of the Program will have very limited impacts, if any, on the existing Clearing Members. The Clearing Members that are interested in becoming SGC Clearing Members and subjecting themselves to the proposed CDCC Rule D-7 will receive the proper training from CDCC regarding 1) requesting the issuance of SGC Notes; and 2) simultaneously implementing the SGC Repurchase Transactions.

Notwithstanding the foregoing, CDCC anticipates various technological changes to its own systems that will be subject to approvals and/or notifications to its regulators in compliance with the applicable regulatory rules. However, please note that with the exception of the fixed-income product market changes, all technological changes required for the implementation of the Program are segregated from other clearinghouse activities at CDCC. New software components will be added for the lifecycle of SGC Notes (including the lifecycle of the SGC Repurchase Transactions) and new communication front ends are added for CCMS and CDSX, new exclusive grids are added to the user interface, and new roles and permissions are added to support both external and internal users.

iii. Impacts on trading functions

The proposed amendments do not have any impacts on any TMX Group trading functions.

iv. Public Interest

For the reasons provided in this analysis, CDCC is of the view that the proposed amendments are not contrary to the public interest.

IV. PROCESS

The proposed amendments, including this analysis, have been approved by CDCC's board of directors and is 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 June 15, 2023 (as amended from time to time).

The proposed amendments and analysis will also be submitted to the Bank of Canada in accordance with the Amended and Restated Oversight Agreement.

Subject to public comments, the proposed amendments will take effect in Q1, 2024.

V. ATTACHED DOCUMENTS

Revised CDCC Rule D-6;
New CDCC Rule D-7; and
Revised Operations Manual including revised Risk Manual and revised Default Manual.

APPENDIX A
PROPOSED AMENDMENTS TO RULES AND MANUALS -
BLACKLINE VERSION

CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

XX, 202X



RULE D-6 - CLEARING OF FIXED INCOME TRANSACTIONS

[...]

“**Afternoon Netting Cycle Timeframe**” – means the time specified in the Operations Manual at which the Corporation nets all then Pending Settlement Requirements into Afternoon Net DVP Settlement Requirements, in accordance with Paragraph D-606(7)(b).

“**Alternative Repurchase Price**” – has the meaning set out in Section D-608(1).

[...]

“**Same Day Transaction**” – means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having the same Novation Date and Purchase Date.

“**Series**” has the meaning set out in Section D-701.

“**SGC Clearing Member**” has the meaning set out in Section D-701.

“**SGC Notes**” has the meaning set out in Section D-701.

“**SGC Note Repurchase Transactions**”—means Repurchase Transactions for which SGC Notes are the Purchased Securities.

“**SGC Securities**” has the meaning set out in Section D-701.

“**SGC Securities Basket**” has the meaning set out in Section D-701

“**Specified Denomination**” – means, with respect to an Acceptable Security, the denomination in which it was issued.

“**Submission Cut-Off Time**” – means a time specified in the Operations Manual as the deadline on any Business Day for submitting Same-Day Transactions for clearance to the Corporation.

“**Unavailable Price Source**” –has the meaning set out in Section D-608(1).

[...]

Section D-608 - No Price Source for Purchased Securities

(1) In the event the Corporation determines that it is unable to calculate a Market Value for any Acceptable Security because no price source quotations or alternative market information acceptable to the Corporation is available for a period of not less than two (2) Business Days (“**Unavailable Price Source**”), the Corporation shall post a notice to that effect as soon as practicable on its website. The Corporation may take any measure and action available to the Corporation under the Rules and the Application for Membership in relation to the Repurchase Transactions for Purchased Securities for which there is an Unavailable Price Source including terminating such Repurchase Transactions and determining an alternative Repurchase Price (“**Alternative Repurchase Price**”) for such Repurchase Transactions based upon the term to maturity of the Repurchase Transactions, the quantity of Purchased

Securities underlying the Repurchase Transactions, any available market information and any other relevant information as determined by the Corporation.

(2) The Alternative Repurchase Price for SGC Note Repurchase Transactions will be as follows:

- (i) for all SGC Note Repurchase Transactions for which the Repurchase Date falls before the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, an amount equal to the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction;
- (ii) for all SGC Note Repurchase Transactions for which the Repurchase Date falls on the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, an amount equal to (y) the net difference of the cash liquidation value of the SGC Notes and (z) the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction; and
- (iii) for all SGC Note Repurchase Transactions for which the Repurchase Date falls after the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, an amount equal to (y) the net difference of the cash liquidation value of the SGC Notes and (z) the “Adjusted SGC Notes Repurchase Price”. “Adjusted SGC Notes Repurchase Price” means the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction adjusted to reflect that no Repo Rate is payable after the termination date of the SGC Note Repurchase Transaction.

RULE D-7 CLEARING OF SGC REPURCHASE TRANSACTIONS

The Sections of this Rule D-7 are applicable only to the clearing of SGC Repurchase Transactions by the Corporation, and to the SGC Clearing Members.

Section D-701 Definitions

Notwithstanding Section A-102 and Section D-601, for the purposes of clearing SGC Repurchase Transactions, the following terms are defined as follows:

“ACV” or “Aggregate Collateral Value” - has the meaning set forth in CDS Participant Rules.

“ACV Securities” has the meaning set out in subsection D-704(3).

“Business Day” means other than a Saturday, a Sunday or a day banks in Toronto (Ontario) and Montreal (Québec) are authorized or obligated by law to close, and is also a day on which each of the Toronto Stock Exchange, CDS and CDCC is open for trading or clearing.

“Buyer” – means, in respect of an SGC Repurchase Transaction, the Trust who is the buyer of an SGC Repurchase Transaction and who becomes the buyer to the Corporation upon acceptance of the SGC Repurchase Transaction by the Corporation, and the Corporation when it has assumed the position of the buyer under an SGC Repurchase Transaction pursuant to Section D-706.

“CCMS” – means the automated Canadian Collateral Management Service operated by TMX Post-Trade Innovations Inc. for collateral management and optimization.

“Close Leg” – means, with respect to an SGC Repurchase Transaction, the second part of an SGC Repurchase Transaction where the Trust agrees to sell back SGC Securities to the SGC Clearing Member at a Repurchase Price to be paid to the Trust by the SGC Clearing Member.

“Coupon Income” means the interest amount payable to the holder of an SGC Security by its issuer on a Coupon Payment Date.

“Coupon Payment Date” means a date on which the issuer of an SGC Security pays Coupon Income to the holder of the SGC Security.

“Economic Terms” – means the transactional details of an SGC Repurchase Transaction as set out in Subsection D-705.

“Equivalent SGC Securities” – means SGC Securities having an equivalent Market Value, subject to SGC Initial Securities Adjustments and SGC Concentration Limits, to the Substituted SGC Securities.

“Indenture Trustee” means TSX Trust Company and any replacement or successor indenture trustee under the Trust Indenture.

“Issuer Trustee” means Computershare Trust Company of Canada and any replacement or successor issuer trustee of the Trust.

“Market Value” – means, with respect to any SGC Securities at any time on any date, the price of such SGC Securities not including any accrued interest or coupon payment, on the basis of available price source quotations or alternative market information, as determined by the Corporation.

“Notes” means the notes (i) having terms to maturity of less than 365 days issued from time to time by the Trust (ii) issued in different Series designated for each SGC Clearing Member (iii) with each Series designated for each Clearing Member secured by the relevant SGC Securities Basket purchased by the Trust through SGC Repurchase Transactions in accordance with this Rule D-7 and pledged by the Trust to the Indenture Trustee in accordance with the Trust Indenture and (iv) issued in tranches by Series from time to time in accordance with a subscription request under a Subscription Agreement between the Trust and the SGC Clearing Member.

“Noteholder” means a beneficial owner of Notes from time to time.

“Novation Date” – means the date on which an SGC Repurchase Transaction is accepted by the Corporation for clearance subject to conditions set forth herein, provided that, if the date of such submission is not a Business Day or the SGC Repurchase Transaction is submitted after the end of the SGC Repurchase Transaction Submission Period on that Business Day, the Novation Date shall be deemed to be the immediately following Business Day.

“Offering Memorandum” means the offering memorandum describing the Notes and delivered to investors purchasing the Notes from SGC Clearing Members which investors are “accredited investors” as defined in Canadian Securities Administrators’ National Instrument 45-106 – *Prospectus Exemptions* as amended from time to time and “permitted clients” that are not individuals as defined in the National Instrument 31-103 *Registration Requirements, Exemptions & Ongoing Registrant Obligations* as amended from time to time.

“Open Leg” – means, with respect to an SGC Repurchase Transaction, the first part of a Repurchase Transaction where the SGC Clearing Member agrees to sell SGC Securities to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member.

“Purchase Date” – means, with respect to any SGC Repurchase Transaction, the date on which SGC Securities are sold by the SGC Clearing Member to the Corporation and by the Corporation to the Trust.

“Purchase Price” – means, with respect to any SGC Repurchase Transaction, the price at which the SGC Securities are sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

“Repurchase Date” – means, with respect to any SGC Repurchase Transaction, a day on which the SGC Securities are to be sold by the Trust to the Corporation and by the Corporation to the SGC Clearing Member; provided that if such date is not a Business Day, the Repurchase Date shall be the immediately following Business Day.

“Repurchase Price” – means, with respect to any SGC Repurchase Transaction, the repurchase price determined by the SGC Clearing Member and the Trust.

“Securities Account” – has the meaning set out in the CDS Participant Rules.

“Segregated Account” – has the meaning set out in the CDS Participant Rules.

“**Seller**” – means the SGC Clearing Member who is the seller under an SGC Repurchase Transaction and who becomes the seller to the Corporation upon acceptance of the SGC Repurchase Transaction by the Corporation, or the Corporation when it has assumed the position of the seller under an SGC Repurchase Transaction pursuant to Section D-706.

“**Series**” means, for each SGC Clearing Member, the series of Notes designated for that SGC Clearing Member secured by a separate SGC Securities Basket.

“**SGC Clearing Member**” – means an applicant that (i) has been admitted to membership by the Corporation as a Fixed Income Clearing Member, (ii) meets the eligibility rating requirements set out in Section D-703, and (iii) has been authorized by the Corporation to enter into SGC Repurchase Transactions.

“**SGC Concentration Limits**” means the concentration limits determined by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket, as published on the Corporation’s website.

“**SGC Initial Securities Adjustments**” means the margins published by Bank of Canada for SLF Securities on the Bank of Canada website, as adjusted by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket as published on the Corporation’s website.

“**SGC Market Value**” means the Market Value of any SGC Securities as reduced by the SGC Initial Securities Adjustments.

“**SGC Maturity Settlement Time**” - means the settlement time set out in the Operations Manual by which the SGC Repurchase Transactions must be settled at maturity.

“**SGC Repurchase Transaction**” – means a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to the Corporation for clearing during the SGC Repurchase Transaction Submission Period, in which the SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member, with a simultaneous agreement by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust, and governed by this Rule D-7.

“**SGC Securities**” – means SLF Securities except those securities specifically added or excluded by the Corporation from time to time as disclosed on the Corporation’s website and in the Offering Memorandum;

“**SGC Securities Adjustment**” – means, in respect of an SGC Repurchase Transaction, SGC Securities equal to the difference between (i) the SGC Market Value of the SGC Securities that are the subject of an SGC Repurchase Transaction and (ii) the Repurchase Price of the SGC Repurchase Transaction; which SGC Securities are owed to the Trust by an SGC Clearing Member that is a party to such SGC Repurchase Transaction, or by the Trust to such SGC Clearing Member.

“**SGC Securities Adjustment Settlement Time**” - means the settlement time for SGC Securities Adjustments set out in the Operations Manual.

“**SGC Securities Basket**” means a basket of SGC Securities satisfying specified SGC Initial Securities Adjustments and SGC Concentration Limits requirements.

“SGC Repurchase Transaction Submission Period” – means a time specified in the Operations Manual as the period on any Business Day during which an SGC Repurchase Transaction can be submitted for clearing by to the Corporation.

“SLF Securities” means the securities listed as collateral under the Bank of Canada’s *Standing Liquidity Facility* as published on the Bank of Canada’s website from time to time.

“Subscription Agreement” means the subscription agreement entered into between each SGC Clearing Member and the Trust pursuant to which the SGC Clearing Member purchases Notes further to subscription requests sent to the Trust from time to time.

“Substituted SGC Securities” means SGC Securities substituted under an SGC Repurchase Transaction pursuant to Section D-708 before a Repurchase Date.

“Trust” means the Secured General Collateral Note Trust established by declaration of trust under the laws of the province of Ontario on ●, ● by the Issuer Trustee as modified, supplemented, restated or replaced from time to time, acting for the purpose of this Rule D-7 through the Corporation, as the Trust’s administrative agent.

“Trust Indenture” – means the trust indenture dated ●, ● entered into between the Trust and the Indenture Trustee, as modified, supplemented, restated or replaced from time to time providing for the creation and issuance of the Notes.

Any capitalized term used in this Rule D-7 that is not defined in this Rule D-7 shall have the meaning assigned to it in Section A-102 and Section D-601.

Section D-702 - Paramountcy and Application

- (1) In the event of any inconsistency between the provisions of this Rule D-7 and the other provisions of the Rules, the provisions of this Rule D-7 will prevail.
- (2) Except as otherwise indicated in this Rule D-7, the provisions of Rules A-1, A-1A, and A-2 to A-5 that are applicable to Fixed Income Clearing Members shall apply to SGC Clearing Members:
- (3) Notwithstanding the foregoing, the following provisions shall not apply to any SGC Clearing Members in their capacity as such or any SGC Repurchase Transactions:
 - (a) Subparagraphs (d) and (e) of Section A-1A02;
 - (b) Rule A-1B (Limited Clearing Members Membership);
 - (c) Sections A-402 to A-407, A-411 and A-412;
 - (d) Rule A-6 (Clearing Fund Deposits);
 - (e) Rule A-6A (Supplemental Liquidity Fund);
 - (f) Rule A-7 (Margin Requirements);
 - (g) Rule A-8 (Daily Settlement); and



(h) Rule A-10 (Recovery Process).

(4) Unless otherwise indicated in this Rule D-7, Rules D-1 to D-6 (with the exception of Section D-601) are not applicable to SGC Repurchase Transactions and SGC Clearing Members in their capacity as such.

Section D-703 – Eligibility of SGC Clearing Member

(1) In order to enter into an SGC Repurchase Transaction, an SGC Clearing Member must be approved by the Corporation to act as a Fixed Income Clearing Member pursuant to Part A of the Rules.

(2) In addition to the foregoing, an SGC Clearing Member or one of its Affiliates acceptable to the Corporation shall maintain at all times a rating by at least two Designated Rating Organizations that are at or above the rating set forth below:

<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>DBRS</u>
<u>Aa3</u>	<u>AA-</u>	<u>AA-</u>	<u>AA-</u>

(3) In the event an SGC Clearing Member or its Affiliate fails to maintain the above-required ratings, the Corporation shall not accept for clearing any new SGC Repurchase Transactions; the Corporation will resume the clearing of new SGC Repurchase Transactions once the SGC Clearing Member or its Affiliate meets the above-required rating. Subject to provisions of the Risk Manual, such a failure to maintain the above-required rating shall not affect any SGC Repurchase Transactions that have already been novated to the Corporation prior to the change of rating.

Section D-704 – Entering into SGC Repurchase Transactions

(1) From time to time, SGC Clearing Members and the Trust may enter into SGC Repurchase Transactions, as governed by this Rule D-7. The SGC Repurchase Transactions will be automated through CCMS.

(2) By entering into an SGC Repurchase Transaction, each SGC Clearing Member represents and warrants that:

(a) it is authorized to use CCMS at all times;

(b) it has configured its CCMS set-up to allow for the entering into SGC Repurchase Transaction and the transfer and sale of any SGC Securities, any SGC Securities Adjustments or Substituted SGC Securities under any SGC Repurchase Transaction; and

(c) there are and will be sufficient SGC Securities in the designated CDS Securities Account of the SGC Clearing Member, to effect and complete all SGC Repurchase Transactions, any SGC Securities Adjustments pursuant to Section D-707 and any substitution pursuant to Section D-708 including compliance with any SGC Initial Securities Adjustments and SGC Concentration Limits for an SGC Securities Basket, through CCMS.

(3) As a condition for entering into an SGC Repurchase Transaction, the SGC Clearing Member will be required to deliver to the Corporation, in addition to the SGC Securities that are the subject of the SGC Repurchase Transaction, additional securities (the “ACV Securities”) with a value sufficient to permit the Corporation to provide collateral to CDS to secure the Corporation’s obligations to CDS in respect of the ACV requirements applicable to the Corporation as a CDS Participant in connection with the Trust’s purchase of SGC Securities pursuant to the Close Leg of the SGC Repurchase Transaction for settlement to a Segregated Account maintained in CDS by the Corporation on behalf of, and as administrative agent for, the Trust. For the purposes of this subsection D-704(3), the ACV Securities shall meet the definition of SGC Securities at all times. As set forth in the Operations Manual, the Corporation will notify the SGC Clearing Member of the value of ACV Securities to be delivered to the Corporation. Upon the completion of the Close Leg of the SGC Repurchase Transaction, the Corporation will deliver the ACV Securities or equivalent ACV Securities back to the SGC Clearing Member following their withdrawal request.

Section D-705 – Trade Submission, Reception and Validation

(1) Any SGC Repurchase Transaction must be submitted for clearing to the Corporation by such system as may be designated by the Corporation from time to time. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence, or any other act or omission, by any designated system or CCMS, as applicable.

(2) The following Economic Terms of an SGC Repurchase Transaction shall be required to be submitted to the Corporation:

SGC Securities

SGC Securities Basket

Novation Date

Purchase Price

Purchase Date

Repurchase Date

Repurchase Price

(3) The SGC Clearing Member shall submit the SGC Securities for each SGC Repurchase Transaction by ensuring that sufficient SGC Securities are made available in the designated CDS Securities Account of the SGC Clearing Member to effect and complete through CCMS the SGC Repurchase Transaction, any related SGC Securities Adjustments pursuant to Section D-707 and any substitution pursuant to Section D-708, including compliance with any SGC Initial Securities Adjustments and SGC Concentration Limits applicable to the SGC Securities Basket applicable to such SGC Repurchase Transaction.

(4) Once an SGC Repurchase Transaction is received, the Corporation will validate if the terms of the SGC Repurchase Transaction match all Economic Terms received, and the Corporation shall not accept any



SGC Repurchase Transaction bearing attributes that are determined by the Corporation as not acceptable for clearing.

- (5) The Corporation may, in its sole discretion and for any reason, refuse to clear any SGC Repurchase Transaction submitted to it.
- (6) Subject to conditions set forth herein, once an SGC Repurchase Transaction has been submitted to, and validated by, the Corporation, the Corporation shall assume the position of the SGC Clearing Member and become a Seller to the Trust and shall assume the position of the Trust and become the Buyer to the SGC Clearing Member under all SGC Repurchase Transactions in each case, as principal to such SGC Repurchase Transactions, as a result of the novation process set forth in Subsection D-706 (1).
- (7) On the Purchase Date of each SGC Repurchase Transaction, the SGC Clearing Member shall transfer, through CCMS, the SGC Securities satisfying the requirements of the relevant SGC Securities Basket on such Purchase Date against payment of the Purchase Price by the Trust. On the Repurchase Date of each Repurchase Transaction, the Trust shall transfer, through CCMS, the Equivalent SGC Securities against payment of the Repurchase Price by the SGC Clearing Member.
- (8) Notwithstanding the use of expressions such as “Repurchase Date” and “Repurchase Price” or any other Rule, all rights, title and interest (free from liens, claims, charges, encumbrances) in and to the SGC Securities and money transferred or paid under Rule D-7 shall pass to the party receiving such SGC Securities and money upon transfer or payment, and no security interest or hypothec is created in the SGC Securities and money transferred or paid. Each SGC Clearing Member shall execute and deliver all necessary documents and take all necessary steps to procure that all rights, title and interest in any SGC Securities shall pass to the Trust (and vice versa) to which transfer is being made upon transfer of the same in accordance with this Rule D-7, free from all liens, claims, charges and encumbrances, and such transfer will not violate any agreement to which such the SGC Clearing Member or the Trust may be a party or by which such SGC Clearing Member’s or the Trust’s property may be bound.

Section D-706 – Novation

- (1) Upon receipt and validation of the SGC Repurchase Transaction under Subsection D-705(6), the SGC Repurchase Transaction shall be automatically novated to the Corporation, such that the original SGC Repurchase Transaction between the SGC Clearing Member and the Trust is cancelled and replaced by two equivalent transactions, one between the SGC Clearing Member and the Corporation where the Corporation is substituted as the Buyer, and one between the Trust and the Corporation where the Corporation is substituted as the Seller. In respect of the Economic Terms, the SGC Clearing Member acting as a Seller under such original SGC Repurchase Transaction shall have the same rights against, and owe the same obligations to, the Corporation under such SGC Repurchase Transaction to which it is a party as it had and owed in respect of its counterparty under the original SGC Repurchase Transaction. For purposes hereof, a reference to the “same” rights or obligations is a reference to rights or obligations falling due for exercise or performance after the novation of a SGC Repurchase Transaction, and which are the same in nature and character as the rights or obligations arising from the Economic Terms of the original SGC Repurchase Transaction (it being assumed, for this purpose, that such Repurchase Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Corporation for clearing), notwithstanding the substitution in the person entitled to them or obliged to perform them and subject to any changes thereto as a result of the operation of these Rules.

- (2) The clearing of SGC Repurchase Transactions by the Corporation is subject to, and contingent upon, the occurrence of the novation described in Subsection D-706(1) above. Effective as at the time of such novation, the SGC Clearing Member and the Trust shall be released and discharged from their respective obligations to each other in respect of the original SGC Repurchase Transaction and the resulting transactions shall be governed by these Rules.
- (3) Notwithstanding the foregoing, the Corporation may reject an SGC Repurchase Transaction submitted for clearing by a Non-Conforming Member.

Section D-707 – SGC Securities Adjustment

- (1) On each Business Day, at the frequency and subject to the conditions set forth in the Operations Manual, the Corporation may, at its discretion, calculate in respect of each SGC Repurchase Transaction to which an SGC Clearing Member is a party, the SGC Securities Adjustment, if any, required to be sold by such SGC Clearing Member to the Trust, or required to be sold by the Trust to the SGC Clearing Member, by the SGC Securities Adjustment Settlement Time. The SGC Clearing Member or the Trust, as the case may be, will ensure that sufficient SGC Securities are made available in the designated CDS Securities Account of the SGC Clearing Member or the Trust, as the case may be, to effect and complete the SGC Securities Adjustment through CCMS and ensure compliance with any Initial Securities Adjustments SGC and SGC Concentration Limits for an SGC Securities Basket following the completion of such SGC Securities Adjustment.
- (2) The transfer and sale of SGC Securities under any SGC Securities Adjustment will be made through CCMS without the payment of any additional consideration by the Trust or the SGC Clearing Member.
- (3) Notwithstanding the provisions of Subsections D-707(1), the Corporation may calculate the SGC Securities Adjustment or vary the SGC Securities Adjustment which is required to be sold from an SGC Clearing Member to the Trust or by the Trust to the SGC Clearing Member pursuant to this Section D-707, at any time and from time to time without advance notice whenever the Corporation, in its sole discretion, considers such calculation or variation necessary or advisable for the protection of the Corporation or the investing public; provided, however, that in the event of the SGC Securities Adjustments is varied, any change to SGC Initial Securities Adjustment and SGC Concentration Limits is concurrently posted on the Corporation's website.
- (4) As the SGC Securities Adjustment is based on SGC Market Value which excludes Coupon Income, any Coupon Income on SGC Securities received by the Trust on a Coupon Payment Date shall be paid to the Corporation and the Corporation shall pay such Coupon Income to the SGC Clearing Member who sold the SGC Securities under an SGC Repurchase Transaction on the same Coupon Payment Date.
- (5) If an SGC Clearing Member does not make available SGC Securities as required for any SGC Securities Adjustment, the Corporation may take any measure or action made available to the Corporation under the Rules and the Application for Membership, including, but not limited to:
- (a) prohibiting and/or imposing limitations on the acceptance and/or clearance of SGC Repurchase Transactions by such SGC Clearing Member; and
 - (b) sanctioning, reprimanding, fining or imposing a penalty on the SGC Clearing Member.

Section D-708 – Substitution before Repurchase Date

- (1) The SGC Clearing Member may, if permitted by the Corporation, during the term of any SGC Repurchase Transaction substitute Equivalent SGC Securities for SGC Securities sold by the SGC Clearing Member under any SGC Repurchase Transaction. The Corporation may, as required by the management and optimization features of CCMS, during the term of any SGC Repurchase Transaction, require the SGC Clearing Member to substitute Equivalent SGC Securities for SGC Securities sold under any SGC Repurchase Transaction while selling back to the SGC Clearing Member sufficient Equivalent SGC Securities. The SGC Clearing Member or the Trust, as the case may be, will ensure that sufficient Equivalent SGC Securities are made available in the designated CDS Securities Account of the SGC Clearing Member or the Trust, as the case may be, to effect and complete the sale of the Equivalent SGC Securities through CCMS, and to ensure compliance with any SGC Initial Securities Adjustments and SGC Concentration Limits for an SGC Securities Basket following completion of such substitution.
- (2) The transfer and sale of the Substituted SGC Securities under any SGC Repurchase Transaction will be made through CCMS.

Section D-709 – Default under SGC Repurchase Transaction

- (1) An SGC Clearing Member which fails to (i) make available sufficient SGC Securities available for transfer to the Trust for any SGC Repurchase Transaction as required under this Rule D-7 including for any SGC Securities Adjustment or Substituted SGC Securities or otherwise, or (ii) to comply with any SGC Initial Securities Adjustments and SGC Concentration Limits for an SGC Securities Basket, will be in default under all SGC Repurchase Transactions relating to the particular SGC Securities Basket for which the SGC Clearing Member failed to deliver SGC Securities and will, if not otherwise a Non-Conforming Member, become a Non-Conforming Member.
- (2) In the case of a default of an SGC Clearing Member under Subsection D-709(1), (a) the Corporation will be released from its obligation to the Trust to repurchase SGC Securities for the Close Leg of all SGC Repurchase Transactions to which such SGC Clearing Member is a party as Seller in respect of the applicable SGC Securities Basket and (b) the Trust will be released from all obligations under the Close Leg of all SGC Repurchase Transactions in respect of which such SGC Clearing Member was the Seller other than the obligation to deliver proceeds of the sale by the Trust of SGC Securities matching the applicable SGC Securities Basket, to the extent that the aggregate amount of such proceeds exceeds the aggregate Repurchase Price for all SGC Repurchase Transactions relating to the applicable SGC Securities Basket following liquidation of the SGC Securities Basket in accordance with the Trust Indenture.

[...]



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

*****, 202*****

Section 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 10:00 p.m. (t-1) to 7:00 and 8:15 a.m. (t)	System Activity/Notification
Deadline to settle Overnight Margin Call notification	2 hours after	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
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	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
<u>SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time</u>	<u>9:30 a.m.</u>	<u>Obligation Deadline</u>
<u>SGC Concentration Limits compliance</u>	<u>9:30 a.m.</u>	<u>Obligation Deadline</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) - 15 minutes cycle	10:00 a.m.	System Activity
Morning Net DVP Settlement Calculation	10:15 a.m.	System Activity
Deadline for Morning Net DVP Settlement	10:30 a.m.	Obligation Deadline
Clearing Member's (excluding LCMs) Morning Intra-Day Margin Calculation & Notification	10:30 a.m.	System Activity/Notification
<u>SGC Maturity Settlement Time</u>	<u>10:30 a.m.</u>	<u>Obligation Deadline</u>
Deadline to settle Morning Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline



Activity	Time Frames	Activity Type
<u>ACV Securities requirement Delivery</u>	<u>Before 10:30 a.m. on any given day an SGC Repurchase Transaction is submitted for clearing</u>	<u>Obligation Deadline</u>
<u>SGC Clearing Members - Beginning of SGC Repurchase Transaction Submission Period - Sale of SGC Securities (3 Business Day Prior Notice)</u>	<u>11:00 a.m.</u>	<u>Operational Activity/Notification</u>
Assets Concentration Limit breach correction deadline	11:45 a.m.	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	12:15 p.m.	System Activity
Clearing Member's Afternoon Intra-Day Margin Calculation & Notification	12:45 p.m.	System Activity/Notification
<u>SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification</u>	<u>12:45 p.m.</u>	<u>System Activity/Notification</u>
Deadline to settle Afternoon Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline
<u>SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time</u>	<u>2 hours after notification</u>	<u>Obligation Deadline</u>
Specific Deposits (same day withdrawal)	12:45 p.m.	Operational Deadline
Deadline to settle Intra-Day Margin Call and Additional Margins for LCMs	The later of 2:45 p.m. or 2 hours after notification	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	2:00 p.m.	System Activity
CAD Deposits - \$10,000,000 and under (same day deposit)	2:45 p.m.	Operational Deadline
CAD Deposits - over \$10,000,000 (2 Business Days notice)	2:45 p.m.	Operational Deadline
CAD withdrawal requests - \$10,000,000 and under (same day withdrawal)	2:45 p.m.	Operational Deadline
CAD withdrawal requests - over \$10,000,000 (2 Business Days notice)	2:45 p.m.	Operational Deadline
<u>SGC Clearing Members - End of SGC Repurchase Transaction Submission Period (3 Business Day Prior Notice)</u>	<u>3:00 p.m.</u>	<u>Operational Deadline</u>
Fixed Income Transactions - (Same Day Transactions) - Submission Cut-Off Time	3:30 p.m.	Operational Deadline
Clearing Members (excluding LCMs) - All Assets deposits other than cash (Margin deposits)	3:30 p.m.	Operational Deadline



Clearing Members - All Assets withdrawal requests other than cash (Margin deposits) for same day withdrawal	3:30 p.m.	Operational Deadline
Clearing Members - All Assets substitution requests other than cash (Margin deposits) for same day substitution	3:30 p.m.	Operational Deadline
Foreign currency withdrawal requests deadline	3:30 p.m.	Operational Deadline
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) - 5 minutes cycle	3:35 p.m.	System Activity
CDS Payment Exchange, Net Wire Payment	4:00 p.m.	System Activity
<u>ACV Securities (same day withdrawal)</u>	<u>4:00 p.m.</u>	<u>Operational Deadline</u>
End of Day DVP Settlement Time	4:00 p.m.	Obligation Deadline
Unsettled Item (Options Underlying deliveries only): Confirmation of settled items to be sent to CDCC	4:15 p.m.	Operational Deadline
Deadline for CDCC to respond to substitution or withdrawal request (other than (Fixed Income) Variation Margin)	4:30 p.m.	Obligation Deadline
OTCI (other than Fixed Income Transactions) - Trade Submission Deadline	4:30 p.m.	Operational Deadline
Projected Margin Report Computation	4:30 p.m.	System Activity
<u>SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification</u>	<u>4:30 p.m.</u>	<u>System Activity</u>
<u>SGC Concentration Limits breach notification</u>	<u>4:30 p.m.</u>	<u>Notification</u>
Request for Standard vs Mini Offset	5:00 p.m.	Operational Deadline
Position Transfers	5:25 p.m.	Operational Deadline
Same Day and T+1 Trade corrections	5:30 p.m.	Operational Deadline
Futures - Tender Notices submission	5:30 p.m.	Operational Deadline
Options - Exercise Notices submission	5:30 p.m.	Operational Deadline
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.	System Activity
FIFO: Daily reporting by Clearing Members of the Long Positions in each of their accounts in chronological order	5:30 p.m.	Operational Deadline
FIFO: Submission of Tender Notices	5:30 p.m.	Operational Deadline



Open Position changes / Position Change Submission (PCS)	6:00 p.m.	Operational Deadline
End of Regular Clearing Cycle and CDCC Clearing Application shutdown - Close of Business	6:00 p.m.	System Activity

[...]

Section 3 REPORTS

[...]

REPORT DETAILS

Report Code	Report Name	Report Description
Daily:		
MA01	Deposits and Withdrawals Report	Details on Clearing Member's deposits and withdrawals for Margin Fund Accounts (Firm, GCM Regime, Non-GCM Regime), Clearing Fund and (Fixed Income) Variation Margin Account. (Note: will find the letters D, W and PW next to the date of deposit)
MT99	Detailed Futures Consolidated Activity Report	Detailed list of all Futures positions with activity, including Settlement of Gains and Losses. Detailed list of all Options on Futures positions and activity including Futures Premiums.
[...]		
MA30	SGC Repurchase Transactions Activity Report	Lists asset balances with SGC Securities Adjustment, SGC Securities Initial Adjustment requirements and SGC Securities sale settlement in Canadian dollars.
MS30	SGC Securities Adjustment Requirement Report	SGC Securities Adjustment and SGC Initial Securities Adjustment requirement detailed per Series for the SGC Securities on a net basis and for all Series for the SGC Securities on a net basis.
Monthly:		

[...]

Section 4 TRADE PROCESSING

INTRODUCTION

[...]

Fixed Income Transactions are reported on the Fixed Income CSD Information Report (MT71).

The SGC Repurchase Transactions will be automated through CCMS. The SGC Repurchase Transaction will be reported by CDCC to the SGC Clearing Members in report MA30.



The reports referred to herein are available for SFTP Downloads on the morning of the Business Day after Transactions are submitted for clearing to CDCC. In accordance with the Rules, Clearing Members must verify that such reports are correct.

[...]

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

Section 6 EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

[...]

Buy-In Process (excluding Fixed Income Variation Margin Buy-Ins)

For a Buy-In in respect of the Acceptable Security, the following applies. As set forth in Subsection A-804(3) of the Rules, CDCC may effect a Buy-In transaction on its own initiative or pursuant to a formal request by a Receiver of Securities affected by a Failed Delivery by purchasing the missing quantity of the relevant Acceptable Securities on the open market.

[...]

6. All fees incurred to CDCC, including all costs with respect to the Buy-In transaction shall be charged to the Provider(s) of Securities responsible for the Failed Delivery. Such fees will be included on the Monthly Clearing Fees Invoice (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

SGC Repurchase Transactions

An SGC Repurchase Transaction is a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, in which the SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member, with a simultaneous agreement by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust. CDCC acts as central counterparty for all SGC Repurchase Transactions: CDCC accepts and novates the bilateral repurchase transaction and its terms and conditions are replaced with the SGC Repurchase Transaction terms and conditions set out in Rule D-7 of the Rules during the clearing process.

All defined terms used in the foregoing paragraph and not defined herein are defined in Rule D-7 of the Rules.

Section 7 SETTLEMENT

[...]

- if the payment or delivery is not received by 10:15 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

SGC Securities Adjustment Threshold

The Corporation may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by the Corporation.

If the SGC Securities Adjustment calculated pursuant to Section D-707 of the Rules is equal to or exceeds the threshold, the Corporation may require the SGC Clearing Member to make available SGC Securities for the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of the SGC Securities Adjustment within the given timeline, CDCC may impose the following fines:

- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC may impose a \$500 fine;
- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC may impose a \$1,000 fine.
- If at the end of day, an SGC Securities Adjustment is made more than 15 minutes, but less than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a \$500 fine;
- If at the end of day, an SGC Securities Adjustment is made more than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a \$1000 fine.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of SGC Securities Adjustment, the Corporation may take any action or measure provided in Section D-707(4).

[...]

SECTION 8 MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

[...]

Use of the Securities Account

1. The securities account shall only be maintained by a securities intermediary which is an Approved Custodian, as defined in the Rules.
2. Any securities held in the securities account maintained by the Approved Custodian, in the name of the Clearing Member, shall be subject to an Account Control Agreement.
3. The Account Control Agreement is a standard agreement that meets certain requirements, as prescribed in the Rules.
4. The securities account may not be used for Net Variation Margin Requirements or for settlement purposes.

5. The respective rights and obligations of the Clearing Member and CDCC with respect to the securities collateral held in the securities account are subject to the Rules, including:
 - a. All deposits, withdrawals and substitutions in the securities account are subject to the timeline described in Section 2 of this Manual and to the collateral policy described in Section ~~32~~ (Eligible Collateral) of the Risk Manual;
 - b. All deposits, withdrawals and substitutions made in the securities account shall also be entered in CDCC Clearing Application in accordance with the timeline described in Section 2 of this Manual and to the collateral policy described in Section ~~32~~ (Eligible Collateral) of the Risk Manual;

[...]



RISK MANUAL

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[...]

Section 1 MARGIN DEPOSITS

As set out in the Rules, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation. Deposits must be made in the form of eligible collateral, as specified in [Section 32](#) of this Risk Manual, in an amount sufficient, taking into account the market value and applicable Haircuts.

The Corporation requires Margin Deposits to cover two types of requirements, namely:

Margin requirement; and

Clearing Fund Requirement.

1.1 Margin Requirement

The Margin requirement is composed of the Initial Margin and the Variation Margin.

1.1.1 Initial Margin

The Initial Margin is composed of the Base Initial Margin (or Adjusted Base Initial Margin, as the case may be) and the Additional Margins. In order to cover the Initial Margin described below, Clearing Members shall deliver to CDCC an acceptable form of Deposits in accordance with [Section 32](#) of this Risk Manual.

1.1.1.1 Base Initial Margin

The Base Initial Margin requirement covers the potential losses and market risk that may occur as a result of future adverse price and/or Risk Factors across the portfolio of each Clearing Member under normal market conditions.

The risk methodology for the Options, Futures and Unsettled Items incorporates the historical volatility of the daily price returns of the Underlying Interests for Options, Unsettled Items and Share Futures and the daily price returns of the Futures prices for Futures (excluding Share Futures). In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% under the normal distribution or the student's t-distribution assumption and a variable number of days as the MPOR. The Corporation also considers various measures to mitigate the procyclicality of margins:

- A Stress Risk component, calculated with a Stress Value at Risk (SVaR) and a weighting factor of 25%.
- A volatility floor, calculated as an average of the daily volatility estimator observed over the last 10 years.

The risk methodology for Fixed Income Transactions is the Value at Risk methodology (VaR). This methodology considers a full revaluation method and it is based on Zero Curves. In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% and a variable number of days as the MPOR. The Corporation also considers a Stress Risk component to mitigate the procyclicality of margins, calculated with a Stressed Value at Risk (SvaR) and a weighting factor of 25%.

Please refer to Sections [7.16.4](#) and [7.26.2](#) for additional details on the Base Initial Margin calculation.

With respect to the Limited Clearing Members, the Base Initial Margin is multiplied by the Effective Ratio to calculate the Adjusted Base Initial Margin. Please refer to Section [7.36.3](#) for additional details on Effective Ratio Recalibration.

[...]

1.1.2.1. Options

For Options, the Variation Margin is collateralized every Business Day and at each Intra-Day Margin Call based on the Option Price reported by the Exchange, or the last OTCI Option Price for OTCI Securities Options³, as the case may be, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall set such price in accordance with the best information available as to the correct price.

[...]

³ Please refer to Section [7.46.4](#) for additional details on the theoretical price calculation of OTCI Securities Options.

[...]

Section 2 : SGC REPURCHASE TRANSACTIONS

This section of the Risk Manual is applicable only to the clearing of SGC Repurchase Transactions by CDCC, and to the SGC Clearing Members. An SGC Repurchase Transaction means a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, pursuant to which an SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust. A simultaneous agreement is created by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date, and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust, and governed by CDCC Rule D-7.

2.1 Repurchase Transactions Risk Management

2.1.1 SGC Initial Securities Adjustment

The SGC Initial Securities Adjustment means the application of margins published by Bank of Canada for SLF Securities on the Bank of Canada website, as adjusted by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket as published on the Corporation's website. CDCC will monitor the list of SLF Securities and haircuts, and if required, review the list of SGC Securities and the selection of the haircuts in order to keep the SGC Securities Basket specifications aligned with these Bank of Canada product features.

The SGC Initial Securities Adjustment acts as an additional layer of credit risk mitigation (over collateralization) in cases where CDCC would have to realize the value of the SGC Securities Basket.

2.1.2 SGC Securities Adjustment

SGC Securities Adjustment means, in respect of an SGC Repurchase Transaction, SGC Securities in an amount equal to the difference between (i) the SGC Market Value of the SGC Securities that are the subject of an SGC Repurchase Transaction and (ii) the Repurchase Price of the SGC Repurchase Transaction; which SGC

Securities are owed to the Trust by an SGC Clearing Member that is a party to such SGC Repurchase Transaction, or by the Trust to such SGC Clearing Member.

- If CDCC proceeds with an SGC Securities Adjustment pursuant to Section D -707 of the Rules at the close of a business day:

(i) if there is a negative SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the SGC Clearing Member to the Trust by the given timeline; and

(ii) if there is a positive SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the Trust to the SGC Clearing Member by the given timeline.

- CDCC may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by CDCC (threshold expressed as a percentage). If CDCC proceeds with an intra-day SGC Securities Adjustment and such SGC Securities Adjustment is equal to or exceeds any applicable threshold, CDCC may require the SGC Clearing Member to make available SGC Securities for the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

2.1.3 SGC Concentration Limits

All SGC Securities Baskets will be comprised of the same eligible types of SGC Securities but will be distinguished by separate SCC Initial Securities Adjustments, SGC Securities Adjustments and SGC Concentration Limits. The concentration limits are determined by CDCC for the SGC Securities in a SGC Securities Basket, as published on CDCC's website.

2.2 Credit Rating Downgrade of a SGC Clearing Member

In the event an SGC Clearing Member fails to maintain the required rating as indicated in the Section D-703 of the Rules, the Corporation shall not accept for clearing any new SGC Repurchase Transactions from this SGC Clearing Members. SGC Repurchase Transactions that have already been novated to the Corporation prior to the change of rating may continue to settle.

In the event an SGC Clearing Members fails to maintain the required rating, CDCC will have the right, at its discretion, to apply and require from the impacted SGC Clearing Member any additional risk mitigation measures as CDCC deems appropriate including, without limitation, any additional SGC Securities Adjustment to cover for the additional risks that such a credit rating downgrade may create.

[...]

Section 6 : ACCEPTABILITY OF UNDERLYING INTERESTS

[...]

6.4 Acceptable Underlying Interests of Cash Buy or Sell Trades

For the application of Sections D-104 and D-603 of the Rules, Securities are acceptable for Cash Buy or Sell Trades clearing if they meet the following criteria:

- 1) The issuer must be eligible, which includes the following issues:
- Bonds and Treasury bills issued by the Government of Canada, including real return issues;
 - Canada Mortgage and Housing Corporation debt securities;

- Bonds issued by Business Development Bank of Canada;
- Bonds issued by Export Development Canada;
- Bonds issued by Farm Credit Canada;
- Bonds issued by Canada Post; and
- Secured General Collateral Notes issued by a special purpose trust, at the request of a SGC Clearing Member.
- Bonds issued by certain provincial governments and provincial Crown corporations determined as acceptable by CDCC, excluding real return bonds, zero coupon bonds, and bonds with a maturity of less than one year.

[...]

Section 7 : APPENDIX

[...]

7.3.3 Entry in force

- Annually, or as soon as practicable upon the occurrence of a Recalibration Event subsequent to a Risk Model Change, the Corporation shall notify in writing each Limited Clearing Member of the new ER applicable to it.
- Subject to Section 7.3.4 ~~6.2.4~~, new ERs shall become effective one calendar quarter after the date of the notification to each Limited Clearing Member of the new ER, and shall remain in force until a revised ER notified to the Limited Clearing Member either as a result of the ER annual review or subsequent to a Risk Model Change enters into force, in accordance with this section.

[...]



DEFAULT MANUAL

, 202

[...]

SECTION 1 : DEFAULT MANAGEMENT PROCESS - TRIGGERS AND IMPLEMENTATION

The grounds and events which may trigger the implementation of the steps, decisions, enforcement actions or remedies that may be taken by the Corporation as part of its Default Management Process are described below. The Rules, notably Rule A-1A - Membership in the Corporation, Rule A-3 - Capital Requirements, Rule A-6 - Clearing Fund Deposits, ~~and~~ Rule A-7 - Margin Requirements and Rule D-7 - Clearing of SGC Repurchase Transactions, support CDCC's authority in these actions and must be adhered to with extreme rigor.

1.1 Objectives of Default Management

[...]

- To minimize the market impact of the Default Management Process.
- With respect to SGC Repurchase Transactions, to obtain the best available market price for SGC Securities by executing a timely liquidation process, according to best practices. This includes, whenever possible, a Default Auction and/or the brokered sale of SGC Securities.

[...]

1.2 Triggers Leading to Non-Conforming or Suspension Status

Critical to the process of default management is, of course, defining the grounds and events which can lead a Clearing Member to default on its obligation and result in the Corporation declaring such member Non-Conforming or suspending it, where warranted. As a general rule, the Corporation views any situation which would, in its judgment, impede a Clearing Member's ability to meet its obligations in the manner specified in Section A-1A04 or Section D-709, as grounds to declare a Clearing Member Non-Conforming. Sections A-1A04, A-1A05 and D-709 A-1A05 of the Rules provide the details of the grounds and events that can lead the Corporation to declare a member Non-Conforming or suspend it, respectively.

[...]

1.4.4 Enforcement Actions Pursuant to a Suspension

In addition to the actions that the Corporation may take under the Non-Conforming Status, CDCC may, following the suspension of a Clearing Member:

- Seize all Margin Deposits posted to the Corporation by the suspended Clearing Member, including its contribution to the Clearing Fund and use it to satisfy such Clearing Member's obligations.
- Seize control of all Open Positions held by the suspended Clearing Member.
- Liquidate, on behalf of the Trust, all SGC Securities provided by the suspended SGC Clearing Member.
- Restrict a suspended SGC Clearing Member from initiating new SGC Repurchase Transactions.

[...]

1.5 Default Management Period

The Default Management Period defines the period during which Clearing Members' financial resources are exposed to losses following a default from ~~other one or more~~ Clearing ~~Member(s)~~ Members.

[...]

1.6 Default Waterfall: Application of Financial Resources to Cover Default-Related Losses

[...]

vi- Application of Financial Resources to Cover SGC Repurchase Transaction Default-Related Losses

- The Corporation will aim at maximizing, to the extent possible and on a reasonable efforts basis, the available liquidation value of the SGC Securities, through the use of Default Auction and/or broker sale. If there are any outstanding losses after the liquidation of SGC Securities pursuant to this Section 1.6, these losses are absorbed by the Noteholders.
- For greater certainty, SGC Clearing Members do not contribute to any Clearing Fund and Supplemental Liquidity Fund for SGC Repurchase Transactions. The Default Management Process for SGC Repurchase Transactions does not benefit from the Corporation's Default Risk Capital.

[...]

SECTION 2 : DEFAULT MANAGEMENT GOVERNANCE

[...]

2.1 Governance Structure

[...]

In the default process, it is important for the Corporation to react in as timely a fashion as possible to identify the potential for a default by a Clearing Member. As such, under the authority of the President or his designee, if at any point the Corporation receives information which would, in its view, acting reasonably, likely lead to a default event by any Clearing Member, it will, as soon as practicable, convene a meeting of the Default Management Committee. The DMC is comprised of the individuals holding the following positions (or their delegates):

- President of CDCC
- Vice-President & Chief Risk Officer, CDCC
- Vice-President & Chief Operating Officer, CDCC
- Vice-President & Chief Commercial Officer, CDCC
- Treasurer, CDCC
- Director Risk ~~Management Oversight & Compliance~~, CDCC

- Vice-President Integrated Operations, GES
- Director Strategic Initiatives, CDCC
- ~~Chief Legal Officer, CDCC~~
- Director, Business Advisory and Regulatory Affairs, CDCC
- Chief Compliance Officer, CDCC
- Head, ~~Client Technology of Delivery, Clearing Systems, GES CDCC~~

[...]

The EC, chaired by the VP and Chief Risk Officer or his designee, is composed of all DMC members plus the following specialists (and/or any other representatives or designees deemed appropriate to involve in the process):

- ~~CDCC Treasurer~~
- MX Vice-President, Regulatory Division
- Head of Corporate Communications-, TMX
- Director, Market Operations, MX
- Managers, Risk Management

It will be the responsibility of the EC to provide an ongoing assessment of the situation, and to report, as appropriate, to ~~the DMC and~~ the Board, so as to ensure these bodies are in a position to render informed decisions throughout the process.

[...]

SECTION 3 : RISK MITIGATION TOOLS

[...]

3.2 Liquidation

Upon a Clearing Member suspension, the Corporation may either liquidate, close-out, and/or auction the suspended Clearing Member's positions as a means to crystallize their value and re-establish a matched book. The liquidation process may take place before, in parallel or subsequent to any auction(s) if the Corporation is not satisfied with the auction(s) outcome. For example, the liquidation could be preferred to the auction if the suspended Clearing Member's portfolio is small and liquid. A portfolio that was successfully liquidated shall be referred to as a "Liquidated Portfolio". For the liquidation of SGC Securities, the Corporation will use Default Auction and/or broker sale to obtain the best available liquidation value. Bids will be compared on each source and the prevailing bid will be accepted

3.3 Default Auction

CDCC may also choose to organize one or more Default Auctions as a means to re-establish a matched book following the suspension of a Clearing Member. The auction may affect a portion or the entirety of the

suspended Clearing Member's unmatched positions. CDCC may also choose to organise one or more Default Auctions as a means to liquidate the SGC Securities

[...]

a) Invitation to participate in the auction

• [...]

- For SGC Securities Default Auctions, conforming SGC Clearing Members and any other Fixed-Income Clearing Members will be invited to participate in the Auction

[...]

c) Allotment of financial resources to Portfolio Incentive Pools

- Before conducting an auction, the Corporation will allot, on a preliminary basis, the Prefunded Financial Resources to each Portfolio Incentive Pool related to each Auction Portfolio or Liquidated Portfolio. Portfolio Incentive Pool is not applicable to SGC Securities Auction Portfolios.

[...]

3.3.2 Portfolio Auction

b) Bidding process

- Auction Participants may bid on one or more Auction Portfolios and must submit their bids specifying the value of collateral they want to receive to assume the positions and the settlement of all the positions contained in each Auction Portfolio. For SGC Securities Default Auctions, Auction Participants must submit bids by specifying a purchase price for each SGC Securities Auction Portfolio.
- Per CDCC Rule A-210(3) Brokers participating in SGC Securities Default Auction may be permitted (as outlined in SGC Securities Default Auction invitation) to share Default Auction information including bidding files with Clients and submit bids on behalf of Clients. Clearing Members acting as brokers must maintain clarity of broker role versus role of bidding for their own or an affiliate's account. Client bidding information must not be shared with personnel who bid on behalf of the Clearing Member's own or affiliate's account.

[...]

c) Prevailing Bidder determination

- The Corporation will determine the winner of the auction for each Auction Portfolio on the basis of which Auction Participant has requested the least amount of collateral to accept all the positions associated with the Auction Portfolio.

For SGC Securities Default Auction, the Corporation will determine the winner for each Auction Portfolio on the basis of which Auction Participant has offered the highest purchase amount for all the SGC Securities associated with that SGC Securities Auction Portfolio.

3.3.3 Post Auction Procedure

[...]

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the auction in addition to communicating to each Eligible Clearing Member the bidding category they fall into (e.g. Low-bidder or Non-bidder). For SGC Securities Default Auction, the bidding category is not applicable as no Prefunded Financial Resources will be available for loss absorption.

[...]

3.3.4 Post SGC Securities Default Auction Procedure

Upon notification, the Prevailing Bidder will be required to create and execute purchase transactions for DVP settlement in CDS for the SGC Securities contained in the Auction Portfolio for which the Clearing Member was the Prevailing Bidder. Any failure by the Prevailing Bidder to complete any SGC Securities purchase transactions or meet any obligations associated with the SGC Securities Default Auction will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to honor its obligations. Prevailing bidder must initiate a trade for all SGC Securities purchase transactions with settlement date as prescribed by CDCC in SGC Default Auction instructions. Such settlement date will be no earlier than by the end of the next following Business Day and no later than the end of the second Business Day after the notification to the Prevailing Bidder.

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the SGC Securities Default Auction. For SGC Securities Default Auction, the bidding category is not applicable as no Prefunded Financial Resources will be available for loss absorption.

3.5 Liquidity Management

[...]

- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of surviving Clearing Members' Clearing Fund Requirements.
- The above liquidity management tools and facilities are not available for an SGC Securities Default Auction.

3.6 Loss Allocation Methodology

[...]

- In the event that the Corporation is later able to recover from the suspended Clearing Member any amount, such amount shall be returned to the other Clearing Members to compensate for any amount charged to them and for the financial resources levied from them as part of the Default Management Process in the reverse order that these resources were used to cover the losses.
- The above loss allocation methodology is not applicable following an SGC Securities Default Auction. Once all the SGC Securities have been liquidated through the use of Default Auction and or Broker Sales, CDCC will transfer all the proceeds from such liquidation to the Trust's liquidation settlement account.

[...]

SECTION 4 : RECOVERY PLAN

[...]

4.2.1 Recovery Powers to Extinguish Uncovered Losses or a Liquidity Shortfall

The exercise by the Corporation of the Recovery Powers of this Sub-section 4.2.1 is applicable to all Clearing Members, except ~~SGC Clearing Members Limited Clearing Members for which only the Reduced Amounts Distribution applies as specified below.~~

[...]

APPENDIX A
PROPOSED AMENDMENTS TO RULES AND MANUALS -
CLEAN VERSION

CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

XX, 202X



RULE D-6 - CLEARING OF FIXED INCOME TRANSACTIONS

[...]

“**Afternoon Netting Cycle Timeframe**” – means the time specified in the Operations Manual at which the Corporation nets all then Pending Settlement Requirements into Afternoon Net DVP Settlement Requirements, in accordance with Paragraph D-606(7)(b).

“**Alternative Repurchase Price**” – has the meaning set out in Section D-608(1).

[...]

“**Same Day Transaction**” – means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having the same Novation Date and Purchase Date.

“**Series**” has the meaning set out in Section D-701.

“**SGC Clearing Member**” has the meaning set out in Section D-701.

“**SGC Notes**” has the meaning set out in Section D-701.

“**SGC Note Repurchase Transactions**”—means Repurchase Transactions for which SGC Notes are the Purchased Securities.

“**SGC Securities**” has the meaning set out in Section D-701.

“**SGC Securities Basket**” has the meaning set out in Section D-701

“**Specified Denomination**” – means, with respect to an Acceptable Security, the denomination in which it was issued.

“**Submission Cut-Off Time**” – means a time specified in the Operations Manual as the deadline on any Business Day for submitting Same-Day Transactions for clearance to the Corporation.

“**Unavailable Price Source**” –has the meaning set out in Section D-608(1).

[...]

Section D-608 - No Price Source for Purchased Securities

- (1) In the event the Corporation determines that it is unable to calculate a Market Value for any Acceptable Security because no price source quotations or alternative market information acceptable to the Corporation is available for a period of not less than two (2) Business Days (“**Unavailable Price Source**”), the Corporation shall post a notice to that effect as soon as practicable on its website. The Corporation may take any measure and action available to the Corporation under the Rules and the Application for Membership in relation to the Repurchase Transactions for Purchased Securities for which there is an Unavailable Price Source including terminating such Repurchase Transactions and determining an alternative Repurchase Price (“**Alternative Repurchase Price**”) for such Repurchase Transactions based upon the term to maturity of the Repurchase Transactions, the quantity of Purchased



Securities underlying the Repurchase Transactions, any available market information and any other relevant information as determined by the Corporation.

- (2) The Alternative Repurchase Price for SGC Note Repurchase Transactions will be as follows:
- (i) for all SGC Note Repurchase Transactions for which the Repurchase Date falls before the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, an amount equal to the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction;
 - (ii) for all SGC Note Repurchase Transactions for which the Repurchase Date falls on the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, an amount equal to (y) the net difference of the cash liquidation value of the SGC Notes and (z) the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction; and
 - (iii) for all SGC Note Repurchase Transactions for which the Repurchase Date falls after the liquidation date of the SGC Securities in the SGC Securities Basket securing the relevant Series of SGC Notes, an amount equal to (y) the net difference of the cash liquidation value of the SGC Notes and (z) the “Adjusted SGC Notes Repurchase Price”. “Adjusted SGC Notes Repurchase Price” means the sum of the Purchase Price and the Price Differential for the relevant SGC Note Repurchase Transaction adjusted to reflect that no Repo Rate is payable after the termination date of the SGC Note Repurchase Transaction.



RULE D-7 CLEARING OF SGC REPURCHASE TRANSACTIONS

The Sections of this Rule D-7 are applicable only to the clearing of SGC Repurchase Transactions by the Corporation, and to the SGC Clearing Members.

Section D-701 Definitions

Notwithstanding Section A-102 and Section D-601, for the purposes of clearing SGC Repurchase Transactions, the following terms are defined as follows:

“**ACV**” or “**Aggregate Collateral Value**” - has the meaning set forth in CDS Participant Rules.

“**ACV Securities**” has the meaning set out in subsection D-704(3).

“**Business Day**” means other than a Saturday, a Sunday or a day banks in Toronto (Ontario) and Montreal (Québec) are authorized or obligated by law to close, and is also a day on which each of the Toronto Stock Exchange, CDS and CDCC is open for trading or clearing.

“**Buyer**” – means, in respect of an SGC Repurchase Transaction, the Trust who is the buyer of an SGC Repurchase Transaction and who becomes the buyer to the Corporation upon acceptance of the SGC Repurchase Transaction by the Corporation, and the Corporation when it has assumed the position of the buyer under an SGC Repurchase Transaction pursuant to Section D-706.

“**CCMS**” – means the automated Canadian Collateral Management Service operated by TMX Post-Trade Innovations Inc. for collateral management and optimization.

“**Close Leg**” – means, with respect to an SGC Repurchase Transaction, the second part of an SGC Repurchase Transaction where the Trust agrees to sell back SGC Securities to the SGC Clearing Member at a Repurchase Price to be paid to the Trust by the SGC Clearing Member.

“**Coupon Income**” means the interest amount payable to the holder of an SGC Security by its issuer on a Coupon Payment Date.

“**Coupon Payment Date**” means a date on which the issuer of an SGC Security pays Coupon Income to the holder of the SGC Security.

“**Economic Terms**” – means the transactional details of an SGC Repurchase Transaction as set out in Subsection D-705.

“**Equivalent SGC Securities**” – means SGC Securities having an equivalent Market Value, subject to SGC Initial Securities Adjustments and SGC Concentration Limits, to the Substituted SGC Securities.

“**Indenture Trustee**” means TSX Trust Company and any replacement or successor indenture trustee under the Trust Indenture.

“**Issuer Trustee**” means Computershare Trust Company of Canada and any replacement or successor issuer trustee of the Trust.



“**Market Value**” – means, with respect to any SGC Securities at any time on any date, the price of such SGC Securities not including any accrued interest or coupon payment, on the basis of available price source quotations or alternative market information, as determined by the Corporation.

“**Notes**” means the notes (i) having terms to maturity of less than 365 days issued from time to time by the Trust (ii) issued in different Series designated for each SGC Clearing Member (iii) with each Series designated for each Clearing Member secured by the relevant SGC Securities Basket purchased by the Trust through SGC Repurchase Transactions in accordance with this Rule D-7 and pledged by the Trust to the Indenture Trustee in accordance with the Trust Indenture and (iv) issued in tranches by Series from time to time in accordance with a subscription request under a Subscription Agreement between the Trust and the SGC Clearing Member.

“**Noteholder**” means a beneficial owner of Notes from time to time.

“**Novation Date**” – means the date on which an SGC Repurchase Transaction is accepted by the Corporation for clearance subject to conditions set forth herein, provided that, if the date of such submission is not a Business Day or the SGC Repurchase Transaction is submitted after the end of the SGC Repurchase Transaction Submission Period on that Business Day, the Novation Date shall be deemed to be the immediately following Business Day.

“**Offering Memorandum**” means the offering memorandum describing the Notes and delivered to investors purchasing the Notes from SGC Clearing Members which investors are “accredited investors” as defined in Canadian Securities Administrators’ National Instrument 45-106 – *Prospectus Exemptions* as amended from time to time and “permitted clients” that are not individuals as defined in the National Instrument 31-103 *Registration Requirements, Exemptions & Ongoing Registrant Obligations* as amended from time to time.

“**Open Leg**” – means, with respect to an SGC Repurchase Transaction, the first part of a Repurchase Transaction where the SGC Clearing Member agrees to sell SGC Securities to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member.

“**Purchase Date**” – means, with respect to any SGC Repurchase Transaction, the date on which SGC Securities are sold by the SGC Clearing Member to the Corporation and by the Corporation to the Trust.

“**Purchase Price**” – means, with respect to any SGC Repurchase Transaction, the price at which the SGC Securities are sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

“**Repurchase Date**” – means, with respect to any SGC Repurchase Transaction, a day on which the SGC Securities are to be sold by the Trust to the Corporation and by the Corporation to the SGC Clearing Member; provided that if such date is not a Business Day, the Repurchase Date shall be the immediately following Business Day.

“**Repurchase Price**” – means, with respect to any SGC Repurchase Transaction, the repurchase price determined by the SGC Clearing Member and the Trust.

“**Securities Account**” – has the meaning set out in the CDS Participant Rules.

“**Segregated Account**” – has the meaning set out in the CDS Participant Rules.



“**Seller**” – means the SGC Clearing Member who is the seller under an SGC Repurchase Transaction and who becomes the seller to the Corporation upon acceptance of the SGC Repurchase Transaction by the Corporation, or the Corporation when it has assumed the position of the seller under an SGC Repurchase Transaction pursuant to Section D-706.

“**Series**” means, for each SGC Clearing Member, the series of Notes designated for that SGC Clearing Member secured by a separate SGC Securities Basket.

“**SGC Clearing Member**” – means an applicant that (i) has been admitted to membership by the Corporation as a Fixed Income Clearing Member, (ii) meets the eligibility rating requirements set out in Section D-703, and (iii) has been authorized by the Corporation to enter into SGC Repurchase Transactions.

“**SGC Concentration Limits**” means the concentration limits determined by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket, as published on the Corporation’s website.

“**SGC Initial Securities Adjustments**” means the margins published by Bank of Canada for SLF Securities on the Bank of Canada website, as adjusted by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket as published on the Corporation’s website.

“**SGC Market Value**” means the Market Value of any SGC Securities as reduced by the SGC Initial Securities Adjustments.

“**SGC Maturity Settlement Time**” - means the settlement time set out in the Operations Manual by which the SGC Repurchase Transactions must be settled at maturity.

“**SGC Repurchase Transaction**” – means a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to the Corporation for clearing during the SGC Repurchase Transaction Submission Period, in which the SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member, with a simultaneous agreement by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust, and governed by this Rule D-7.

“**SGC Securities**” – means SLF Securities except those securities specifically added or excluded by the Corporation from time to time as disclosed on the Corporation’s website and in the Offering Memorandum;

“**SGC Securities Adjustment**” – means, in respect of an SGC Repurchase Transaction, SGC Securities equal to the difference between (i) the SGC Market Value of the SGC Securities that are the subject of an SGC Repurchase Transaction and (ii) the Repurchase Price of the SGC Repurchase Transaction; which SGC Securities are owed to the Trust by an SGC Clearing Member that is a party to such SGC Repurchase Transaction, or by the Trust to such SGC Clearing Member.

“**SGC Securities Adjustment Settlement Time**” - means the settlement time for SGC Securities Adjustments set out in the Operations Manual.

“**SGC Securities Basket**” means a basket of SGC Securities satisfying specified SGC Initial Securities Adjustments and SGC Concentration Limits requirements.



“**SGC Repurchase Transaction Submission Period**” – means a time specified in the Operations Manual as the period on any Business Day during which an SGC Repurchase Transaction can be submitted for clearing by to the Corporation.

“**SLF Securities**” means the securities listed as collateral under the Bank of Canada’s *Standing Liquidity Facility* as published on the Bank of Canada’s website from time to time.

“**Subscription Agreement**” means the subscription agreement entered into between each SGC Clearing Member and the Trust pursuant to which the SGC Clearing Member purchases Notes further to subscription requests sent to the Trust from time to time.

“**Substituted SGC Securities**” means SGC Securities substituted under an SGC Repurchase Transaction pursuant to Section D-708 before a Repurchase Date.

“**Trust**” means the Secured General Collateral Note Trust established by declaration of trust under the laws of the province of Ontario **on ●, ● by** the Issuer Trustee as modified, supplemented, restated or replaced from time to time, acting for the purpose of this Rule D-7 through the Corporation, as the Trust’s administrative agent.

“**Trust Indenture**” – means the trust indenture **dated ●, ● entered** into between the Trust and the Indenture Trustee, as modified, supplemented, restated or replaced from time to time providing for the creation and issuance of the Notes.

Any capitalized term used in this Rule D-7 that is not defined in this Rule D-7 shall have the meaning assigned to it in Section A-102 and Section D-601.

Section D-702 - Paramountcy and Application

- (1) In the event of any inconsistency between the provisions of this Rule D-7 and the other provisions of the Rules, the provisions of this Rule D-7 will prevail.
- (2) Except as otherwise indicated in this Rule D-7, the provisions of Rules A-1, A-1A, and A-2 to A-5 that are applicable to Fixed Income Clearing Members shall apply to SGC Clearing Members:
- (3) Notwithstanding the foregoing, the following provisions shall not apply to any SGC Clearing Members in their capacity as such or any SGC Repurchase Transactions:
 - (a) Subparagraphs (d) and (e) of Section A-1A02;
 - (b) Rule A-A1B (Limited Clearing Members Membership);
 - (c) Sections A-402 to A-407, A-411 and A-412;
 - (d) Rule A-6 (Clearing Fund Deposits);
 - (e) Rule A-6A (Supplemental Liquidity Fund);
 - (f) Rule A-7 (Margin Requirements);
 - (g) Rule A-8 (Daily Settlement); and



- (h) Rule A-10 (Recovery Process).
- (4) Unless otherwise indicated in this Rule D-7, Rules D-1 to D-6 (with the exception of Section D-601) are not applicable to SGC Repurchase Transactions and SGC Clearing Members in their capacity as such.

Section D-703 – Eligibility of SGC Clearing Member

- (1) In order to enter into an SGC Repurchase Transaction, an SGC Clearing Member must be approved by the Corporation to act as a Fixed Income Clearing Member pursuant to Part A of the Rules.
- (2) In addition to the foregoing, an SGC Clearing Member or one of its Affiliates acceptable to the Corporation shall maintain at all times a rating by at least two Designated Rating Organizations that are at or above the rating set forth below:

Moody's	Standard & Poor's	Fitch	DBRS
Aa3	AA-	AA-	AA-

- (3) In the event an SGC Clearing Member or its Affiliate fails to maintain the above-required ratings, the Corporation shall not accept for clearing any new SGC Repurchase Transactions; the Corporation will resume the clearing of new SGC Repurchase Transactions once the SGC Clearing Member or its Affiliate meets the above-required rating. Subject to provisions of the Risk Manual, such a failure to maintain the above-required rating shall not affect any SGC Repurchase Transactions that have already been novated to the Corporation prior to the change of rating.

Section D-704 – Entering into SGC Repurchase Transactions

- (1) From time to time, SGC Clearing Members and the Trust may enter into SGC Repurchase Transactions, as governed by this Rule D-7. The SGC Repurchase Transactions will be automated through CCMS.
- (2) By entering into an SGC Repurchase Transaction, each SGC Clearing Member represents and warrants that:
 - (a) it is authorized to use CCMS at all times;
 - (b) it has configured its CCMS set-up to allow for the entering into SGC Repurchase Transaction and the transfer and sale of any SGC Securities, any SGC Securities Adjustments or Substituted SGC Securities under any SGC Repurchase Transaction; and
 - (c) there are and will be sufficient SGC Securities in the designated CDS Securities Account of the SGC Clearing Member, to effect and complete all SGC Repurchase Transactions, any SGC Securities Adjustments pursuant to Section D-707 and any substitution pursuant to Section D-708 including compliance with any SGC Initial Securities Adjustments and SGC Concentration Limits for an SGC Securities Basket, through CCMS.



- (3) As a condition for entering into an SGC Repurchase Transaction, the SGC Clearing Member will be required to deliver to the Corporation, in addition to the SGC Securities that are the subject of the SGC Repurchase Transaction, additional securities (the “ACV Securities”) with a value sufficient to permit the Corporation to provide collateral to CDS to secure the Corporation’s obligations to CDS in respect of the ACV requirements applicable to the Corporation as a CDS Participant in connection with the Trust’s purchase of SGC Securities pursuant to the Close Leg of the SGC Repurchase Transaction for settlement to a Segregated Account maintained in CDS by the Corporation on behalf of, and as administrative agent for, the Trust. For the purposes of this subsection D-704(3), the ACV Securities shall meet the definition of SGC Securities at all times. As set forth in the Operations Manual, the Corporation will notify the SGC Clearing Member of the value of ACV Securities to be delivered to the Corporation. Upon the completion of the Close Leg of the SGC Repurchase Transaction, the Corporation will deliver the ACV Securities or equivalent ACV Securities back to the SGC Clearing Member following their withdrawal request.

Section D-705 – Trade Submission, Reception and Validation

- (1) Any SGC Repurchase Transaction must be submitted for clearing to the Corporation by such system as may be designated by the Corporation from time to time. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence, or any other act or omission, by any designated system or CCMS, as applicable.
- (2) The following Economic Terms of an SGC Repurchase Transaction shall be required to be submitted to the Corporation:

SGC Securities

SGC Securities Basket

Novation Date

Purchase Price

Purchase Date

Repurchase Date

Repurchase Price

- (3) The SGC Clearing Member shall submit the SGC Securities for each SGC Repurchase Transaction by ensuring that sufficient SGC Securities are made available in the designated CDS Securities Account of the SGC Clearing Member to effect and complete through CCMS the SGC Repurchase Transaction, any related SGC Securities Adjustments pursuant to Section D-707 and any substitution pursuant to Section D-708, including compliance with any SGC Initial Securities Adjustments and SGC Concentration Limits applicable to the SGC Securities Basket applicable to such SGC Repurchase Transaction.
- (4) Once an SGC Repurchase Transaction is received, the Corporation will validate if the terms of the SGC Repurchase Transaction match all Economic Terms received, and the Corporation shall not accept any



SGC Repurchase Transaction bearing attributes that are determined by the Corporation as not acceptable for clearing.

- (5) The Corporation may, in its sole discretion and for any reason, refuse to clear any SGC Repurchase Transaction submitted to it.
- (6) Subject to conditions set forth herein, once an SGC Repurchase Transaction has been submitted to, and validated by, the Corporation, the Corporation shall assume the position of the SGC Clearing Member and become a Seller to the Trust and shall assume the position of the Trust and become the Buyer to the SGC Clearing Member under all SGC Repurchase Transactions in each case, as principal to such SGC Repurchase Transactions, as a result of the novation process set forth in Subsection D-706 (1).
- (7) On the Purchase Date of each SGC Repurchase Transaction, the SGC Clearing Member shall transfer, through CCMS, the SGC Securities satisfying the requirements of the relevant SGC Securities Basket on such Purchase Date against payment of the Purchase Price by the Trust. On the Repurchase Date of each Repurchase Transaction, the Trust shall transfer, through CCMS, the Equivalent SGC Securities against payment of the Repurchase Price by the SGC Clearing Member.
- (8) Notwithstanding the use of expressions such as “Repurchase Date” and “Repurchase Price” or any other Rule, all rights, title and interest (free from liens, claims, charges, encumbrances) in and to the SGC Securities and money transferred or paid under Rule D-7 shall pass to the party receiving such SGC Securities and money upon transfer or payment, and no security interest or hypothec is created in the SGC Securities and money transferred or paid. Each SGC Clearing Member shall execute and deliver all necessary documents and take all necessary steps to procure that all rights, title and interest in any SGC Securities shall pass to the Trust (and vice versa) to which transfer is being made upon transfer of the same in accordance with this Rule D-7, free from all liens, claims, charges and encumbrances, and such transfer will not violate any agreement to which such the SGC Clearing Member or the Trust may be a party or by which such SGC Clearing Member’s or the Trust’s property may be bound.

Section D-706 – Novation

- (1) Upon receipt and validation of the SGC Repurchase Transaction under Subsection D-705(6), the SGC Repurchase Transaction shall be automatically novated to the Corporation, such that the original SGC Repurchase Transaction between the SGC Clearing Member and the Trust is cancelled and replaced by two equivalent transactions, one between the SGC Clearing Member and the Corporation where the Corporation is substituted as the Buyer, and one between the Trust and the Corporation where the Corporation is substituted as the Seller. In respect of the Economic Terms, the SGC Clearing Member acting as a Seller under such original SGC Repurchase Transaction shall have the same rights against, and owe the same obligations to, the Corporation under such SGC Repurchase Transaction to which it is a party as it had and owed in respect of its counterparty under the original SGC Repurchase Transaction. For purposes hereof, a reference to the “same” rights or obligations is a reference to rights or obligations falling due for exercise or performance after the novation of a SGC Repurchase Transaction, and which are the same in nature and character as the rights or obligations arising from the Economic Terms of the original SGC Repurchase Transaction (it being assumed, for this purpose, that such Repurchase Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Corporation for clearing), notwithstanding the substitution in the person entitled to them or obliged to perform them and subject to any changes thereto as a result of the operation of these Rules.



- (2) The clearing of SGC Repurchase Transactions by the Corporation is subject to, and contingent upon, the occurrence of the novation described in Subsection D-706(1) above. Effective as at the time of such novation, the SGC Clearing Member and the Trust shall be released and discharged from their respective obligations to each other in respect of the original SGC Repurchase Transaction and the resulting transactions shall be governed by these Rules.
- (3) Notwithstanding the foregoing, the Corporation may reject an SGC Repurchase Transaction submitted for clearing by a Non-Conforming Member.

Section D-707 – SGC Securities Adjustment

- (1) On each Business Day, at the frequency and subject to the conditions set forth in the Operations Manual, the Corporation may, at its discretion, calculate in respect of each SGC Repurchase Transaction to which an SGC Clearing Member is a party, the SGC Securities Adjustment, if any, required to be sold by such SGC Clearing Member to the Trust, or required to be sold by the Trust to the SGC Clearing Member, by the SGC Securities Adjustment Settlement Time. The SGC Clearing Member or the Trust, as the case may be, will ensure that sufficient SGC Securities are made available in the designated CDS Securities Account of the SGC Clearing Member or the Trust, as the case may be, to effect and complete the SGC Securities Adjustment through CCMS and ensure compliance with any Initial Securities Adjustments SGC and SGC Concentration Limits for an SGC Securities Basket following the completion of such SGC Securities Adjustment.
- (2) The transfer and sale of SGC Securities under any SGC Securities Adjustment will be made through CCMS without the payment of any additional consideration by the Trust or the SGC Clearing Member.
- (3) Notwithstanding the provisions of Subsections D-707(1), the Corporation may calculate the SGC Securities Adjustment or vary the SGC Securities Adjustment which is required to be sold from an SGC Clearing Member to the Trust or by the Trust to the SGC Clearing Member pursuant to this Section D-707, at any time and from time to time without advance notice whenever the Corporation, in its sole discretion, considers such calculation or variation necessary or advisable for the protection of the Corporation or the investing public; provided, however, that in the event of the SGC Securities Adjustments is varied, any change to SGC Initial Securities Adjustment and SGC Concentration Limits is concurrently posted on the Corporation's website.
- (4) As the SGC Securities Adjustment is based on SGC Market Value which excludes Coupon Income, any Coupon Income on SGC Securities received by the Trust on a Coupon Payment Date shall be paid to the Corporation and the Corporation shall pay such Coupon Income to the SGC Clearing Member who sold the SGC Securities under an SGC Repurchase Transaction on the same Coupon Payment Date.
- (5) If an SGC Clearing Member does not make available SGC Securities as required for any SGC Securities Adjustment, the Corporation may take any measure or action made available to the Corporation under the Rules and the Application for Membership, including, but not limited to:
 - (a) prohibiting and/or imposing limitations on the acceptance and/or clearance of SGC Repurchase Transactions by such SGC Clearing Member; and
 - (b) sanctioning, reprimanding, fining or imposing a penalty on the SGC Clearing Member.

Section D-708 – Substitution before Repurchase Date

- (1) The SGC Clearing Member may, if permitted by the Corporation, during the term of any SGC Repurchase Transaction substitute Equivalent SGC Securities for SGC Securities sold by the SGC Clearing Member under any SGC Repurchase Transaction. The Corporation may, as required by the management and optimization features of CCMS, during the term of any SGC Repurchase Transaction, require the SGC Clearing Member to substitute Equivalent SGC Securities for SGC Securities sold under any SGC Repurchase Transaction while selling back to the SGC Clearing Member sufficient Equivalent SGC Securities. The SGC Clearing Member or the Trust, as the case may be, will ensure that sufficient Equivalent SGC Securities are made available in the designated CDS Securities Account of the SGC Clearing Member or the Trust, as the case may be, to effect and complete the sale of the Equivalent SGC Securities through CCMS, and to ensure compliance with any SGC Initial Securities Adjustments and SGC Concentration Limits for an SGC Securities Basket following completion of such substitution.
- (2) The transfer and sale of the Substituted SGC Securities under any SGC Repurchase Transaction will be made through CCMS.

Section D-709 – Default under SGC Repurchase Transaction

- (1) An SGC Clearing Member which fails to (i) make available sufficient SGC Securities available for transfer to the Trust for any SGC Repurchase Transaction as required under this Rule D-7 including for any SGC Securities Adjustment or Substituted SGC Securities or otherwise, or (ii) to comply with any SGC Initial Securities Adjustments and SGC Concentration Limits for an SGC Securities Basket, will be in default under all SGC Repurchase Transactions relating to the particular SGC Securities Basket for which the SGC Clearing Member failed to deliver SGC Securities and will, if not otherwise a Non-Conforming Member, become a Non-Conforming Member.
- (2) In the case of a default of an SGC Clearing Member under Subsection D-709(1), (a) the Corporation will be released from its obligation to the Trust to repurchase SGC Securities for the Close Leg of all SGC Repurchase Transactions to which such SGC Clearing Member is a party as Seller in respect of the applicable SGC Securities Basket and (b) the Trust will be released from all obligations under the Close Leg of all SGC Repurchase Transactions in respect of which such SGC Clearing Member was the Seller other than the obligation to deliver proceeds of the sale by the Trust of SGC Securities matching the applicable SGC Securities Basket, to the extent that the aggregate amount of such proceeds exceeds the aggregate Repurchase Price for all SGC Repurchase Transactions relating to the applicable SGC Securities Basket following liquidation of the SGC Securities Basket in accordance with the Trust Indenture.

[...]



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

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Section 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 10:00 p.m. (t-1) to 7:00 and 8:15 a.m. (t)	System Activity/Notification
Deadline to settle Overnight Margin Call notification	2 hours after	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
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	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
SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time	9:30 a.m.	Obligation Deadline
SGC Concentration Limits compliance	9:30 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
Morning Net DVP Settlement Calculation	10:15 a.m.	System Activity
Deadline for Morning Net DVP Settlement	10:30 a.m.	Obligation Deadline
Clearing Member's (excluding LCMs) Morning Intra-Day Margin Calculation & Notification	10:30 a.m.	System Activity/Notification
SGC Maturity Settlement Time	10:30 a.m.	Obligation Deadline
Deadline to settle Morning Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline



Activity	Time Frames	Activity Type
ACV Securities requirement Delivery	Before 10:30 a.m. on any given day an SGC Repurchase Transaction is submitted for clearing	Obligation Deadline
SGC Clearing Members - Beginning of SGC Repurchase Transaction Submission Period - Sale of SGC Securities (3 Business Day Prior Notice)	11:00 a.m.	Operational Activity/Notification
Assets Concentration Limit breach correction deadline	11:45 a.m.	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	12:15 p.m.	System Activity
Clearing Member's Afternoon Intra-Day Margin Calculation & Notification	12:45 p.m.	System Activity/Notification
SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification	12:45 p.m.	System Activity/Notification
Deadline to settle Afternoon Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline
SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time	2 hours after notification	Obligation Deadline
Specific Deposits (same day withdrawal)	12:45 p.m.	Operational Deadline
Deadline to settle Intra-Day Margin Call and Additional Margins for LCMs	The later of 2:45 p.m. or 2 hours after notification	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	2:00 p.m.	System Activity
CAD Deposits - \$10,000,000 and under (same day deposit)	2:45 p.m.	Operational Deadline
CAD Deposits - over \$10,000,000 (2 Business Days notice)	2:45 p.m.	Operational Deadline
CAD withdrawal requests - \$10,000,000 and under (same day withdrawal)	2:45 p.m.	Operational Deadline
CAD withdrawal requests - over \$10,000,000 (2 Business Days notice)	2:45 p.m.	Operational Deadline
SGC Clearing Members - End of SGC Repurchase Transaction Submission Period (3 Business Day Prior Notice)	3:00 p.m.	Operational Deadline
Fixed Income Transactions - (Same Day Transactions) - Submission Cut-Off Time	3:30 p.m.	Operational Deadline
Clearing Members (excluding LCMs) - All Assets deposits other than cash (Margin deposits)	3:30 p.m.	Operational Deadline



Clearing Members - All Assets withdrawal requests other than cash (Margin deposits) for same day withdrawal	3:30 p.m.	Operational Deadline
Clearing Members - All Assets substitution requests other than cash (Margin deposits) for same day substitution	3:30 p.m.	Operational Deadline
Foreign currency withdrawal requests deadline	3:30 p.m.	Operational Deadline
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) - 5 minutes cycle	3:35 p.m.	System Activity
CDS Payment Exchange, Net Wire Payment	4:00 p.m.	System Activity
ACV Securities (same day withdrawal)	4:00 p.m.	Operational Deadline
End of Day DVP Settlement Time	4:00 p.m.	Obligation Deadline
Unsettled Item (Options Underlying deliveries only): Confirmation of settled items to be sent to CDCC	4:15 p.m.	Operational Deadline
Deadline for CDCC to respond to substitution or withdrawal request (other than (Fixed Income) Variation Margin)	4:30 p.m.	Obligation Deadline
OTCI (other than Fixed Income Transactions) - Trade Submission Deadline	4:30 p.m.	Operational Deadline
Projected Margin Report Computation	4:30 p.m.	System Activity
SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification	4:30 p.m.	System Activity
SGC Concentration Limits breach notification	4:30 p.m.	Notification
Request for Standard vs Mini Offset	5:00 p.m.	Operational Deadline
Position Transfers	5:25 p.m.	Operational Deadline
Same Day and T+1 Trade corrections	5:30 p.m.	Operational Deadline
Futures - Tender Notices submission	5:30 p.m.	Operational Deadline
Options - Exercise Notices submission	5:30 p.m.	Operational Deadline
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.	System Activity
FIFO: Daily reporting by Clearing Members of the Long Positions in each of their accounts in chronological order	5:30 p.m.	Operational Deadline
FIFO: Submission of Tender Notices	5:30 p.m.	Operational Deadline



Open Position changes / Position Change Submission (PCS)	6:00 p.m.	Operational Deadline
End of Regular Clearing Cycle and CDCC Clearing Application shutdown - Close of Business	6:00 p.m.	System Activity

[...]

Section 3 REPORTS

[...]

REPORT DETAILS

Report Code	Report Name	Report Description
Daily:		
MA01	Deposits and Withdrawals Report	Details on Clearing Member's deposits and withdrawals for Margin Fund Accounts (Firm, GCM Regime, Non-GCM Regime), Clearing Fund and (Fixed Income) Variation Margin Account. (Note: will find the letters D, W and PW next to the date of deposit)
MT99	Detailed Futures Consolidated Activity Report	Detailed list of all Futures positions with activity, including Settlement of Gains and Losses. Detailed list of all Options on Futures positions and activity including Futures Premiums.
[...]		
MA30	SGC Repurchase Transactions Activity Report	Lists asset balances with SGC Securities Adjustment, SGC Securities Initial Adjustment requirements and SGC Securities sale settlement in Canadian dollars.
MS30	SGC Securities Adjustment Requirement Report	SGC Securities Adjustment and SGC Initial Securities Adjustment requirement detailed per Series for the SGC Securities on a net basis and for all Series for the SGC Securities on a net basis.
Monthly:		

[...]

Section 4 TRADE PROCESSING

INTRODUCTION

[...]

Fixed Income Transactions are reported on the Fixed Income CSD Information Report (MT71).

The SGC Repurchase Transactions will be automated through CCMS. The SGC Repurchase Transaction will be reported by CDCC to the SGC Clearing Members in report MA30.



The reports referred to herein are available for SFTP Downloads on the morning of the Business Day after Transactions are submitted for clearing to CDCC. In accordance with the Rules, Clearing Members must verify that such reports are correct.

[...]

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

Section 6 EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

[...]

Buy-In Process (excluding Fixed Income Variation Margin Buy-Ins)

For a Buy-In in respect of the Acceptable Security, the following applies. As set forth in Subsection A-804(3) of the Rules, CDCC may effect a Buy-In transaction on its own initiative or pursuant to a formal request by a Receiver of Securities affected by a Failed Delivery by purchasing the missing quantity of the relevant Acceptable Securities on the open market.

[...]

6. All fees incurred to CDCC, including all costs with respect to the Buy-In transaction shall be charged to the Provider(s) of Securities responsible for the Failed Delivery. Such fees will be included on the Monthly Clearing Fees Invoice (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

SGC Repurchase Transactions

An SGC Repurchase Transaction is a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, in which the SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member, with a simultaneous agreement by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust. CDCC acts as central counterparty for all SGC Repurchase Transactions: CDCC accepts and novates the bilateral repurchase transaction and its terms and conditions are replaced with the SGC Repurchase Transaction terms and conditions set out in Rule D-7 of the Rules during the clearing process.

All defined terms used in the foregoing paragraph and not defined herein are defined in Rule D-7 of the Rules.



Section 7 SETTLEMENT

[...]

- if the payment or delivery is not received by 10:15 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

SGC Securities Adjustment Threshold

The Corporation may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by the Corporation.

If the SGC Securities Adjustment calculated pursuant to Section D-707 of the Rules is equal to or exceeds the threshold, the Corporation may require the SGC Clearing Member to make available SGC Securities for the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of the SGC Securities Adjustment within the given timeline, CDCC may impose the following fines:

- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC may impose a \$500 fine;
- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC may impose a \$1,000 fine.
- If at the end of day, an SGC Securities Adjustment is made more than 15 minutes, but less than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a \$500 fine;
- If at the end of day, an SGC Securities Adjustment is made more than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a \$1000 fine.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of SGC Securities Adjustment, the Corporation may take any action or measure provided in Section D-707(4).

[...]

SECTION 8 MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

[...]

Use of the Securities Account

1. The securities account shall only be maintained by a securities intermediary which is an Approved Custodian, as defined in the Rules.
2. Any securities held in the securities account maintained by the Approved Custodian, in the name of the Clearing Member, shall be subject to an Account Control Agreement.
3. The Account Control Agreement is a standard agreement that meets certain requirements, as prescribed in the Rules.
4. The securities account may not be used for Net Variation Margin Requirements or for settlement purposes.



5. The respective rights and obligations of the Clearing Member and CDCC with respect to the securities collateral held in the securities account are subject to the Rules, including:
 - a. All deposits, withdrawals and substitutions in the securities account are subject to the timeline described in Section 2 of this Manual and to the collateral policy described in Section 3 (Eligible Collateral) of the Risk Manual;
 - b. All deposits, withdrawals and substitutions made in the securities account shall also be entered in CDCC Clearing Application in accordance with the timeline described in Section 2 of this Manual and to the collateral policy described in Section 3 (Eligible Collateral) of the Risk Manual;

[...]



RISK MANUAL

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[...]

Section 1 MARGIN DEPOSITS

As set out in the Rules, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation. Deposits must be made in the form of eligible collateral, as specified in Section 3 of this Risk Manual, in an amount sufficient, taking into account the market value and applicable Haircuts.

The Corporation requires Margin Deposits to cover two types of requirements, namely:

Margin requirement; and

Clearing Fund Requirement.

1.1 Margin Requirement

The Margin requirement is composed of the Initial Margin and the Variation Margin.

1.1.1 Initial Margin

The Initial Margin is composed of the Base Initial Margin (or Adjusted Base Initial Margin, as the case may be) and the Additional Margins. In order to cover the Initial Margin described below, Clearing Members shall deliver to CDCC an acceptable form of Deposits in accordance with Section 3 of this Risk Manual.

1.1.1.1 Base Initial Margin

The Base Initial Margin requirement covers the potential losses and market risk that may occur as a result of future adverse price and/or Risk Factors across the portfolio of each Clearing Member under normal market conditions.

The risk methodology for the Options, Futures and Unsettled Items incorporates the historical volatility of the daily price returns of the Underlying Interests for Options, Unsettled Items and Share Futures and the daily price returns of the Futures prices for Futures (excluding Share Futures). In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% under the normal distribution or the student's t-distribution assumption and a variable number of days as the MPOR. The Corporation also considers various measures to mitigate the procyclicality of margins:

- A Stress Risk component, calculated with a Stress Value at Risk (SVaR) and a weighting factor of 25%.
- A volatility floor, calculated as an average of the daily volatility estimator observed over the last 10 years.

The risk methodology for Fixed Income Transactions is the Value at Risk methodology (VaR). This methodology considers a full revaluation method and it is based on Zero Curves. In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% and a variable number of days as the MPOR. The Corporation also considers a Stress Risk component to mitigate the procyclicality of margins, calculated with a Stressed Value at Risk (SvaR) and a weighting factor of 25%.

Please refer to Sections 7.1 and 7.2 for additional details on the Base Initial Margin calculation.

With respect to the Limited Clearing Members, the Base Initial Margin is multiplied by the Effective Ratio to calculate the Adjusted Base Initial Margin. Please refer to Section 7.3 for additional details on Effective Ratio Recalibration.

[...]

1.1.2.1. Options

For Options, the Variation Margin is collateralized every Business Day and at each Intra-Day Margin Call based on the Option Price reported by the Exchange, or the last OTCI Option Price for OTCI Securities Options³, as the case may be, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall set such price in accordance with the best information available as to the correct price.

[...]

³ Please refer to Section 7.4 for additional details on the theoretical price calculation of OTCI Securities Options.

[...]

Section 2 : SGC REPURCHASE TRANSACTIONS

This section of the Risk Manual is applicable only to the clearing of SGC Repurchase Transactions by CDCC, and to the SGC Clearing Members. An SGC Repurchase Transaction means a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, pursuant to which an SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust. A simultaneous agreement is created by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date, and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust, and governed by CDCC Rule D-7.

2.1 Repurchase Transactions Risk Management

2.1.1 SGC Initial Securities Adjustment

The SGC Initial Securities Adjustment means the application of margins published by Bank of Canada for SLF Securities on the Bank of Canada website, as adjusted by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket as published on the Corporation's website. CDCC will monitor the list of SLF Securities and haircuts, and if required, review the list of SGC Securities and the selection of the haircuts in order to keep the SGC Securities Basket specifications aligned with these Bank of Canada product features.

The SGC Initial Securities Adjustment acts as an additional layer of credit risk mitigation (over collateralization) in cases where CDCC would have to realize the value of the SGC Securities Basket.

2.1.2 SGC Securities Adjustment

SGC Securities Adjustment means, in respect of an SGC Repurchase Transaction, SGC Securities in an amount equal to the difference between (i) the SGC Market Value of the SGC Securities that are the subject of an SGC Repurchase Transaction and (ii) the Repurchase Price of the SGC Repurchase Transaction; which SGC

Securities are owed to the Trust by an SGC Clearing Member that is a party to such SGC Repurchase Transaction, or by the Trust to such SGC Clearing Member.

- If CDCC proceeds with an SGC Securities Adjustment pursuant to Section D -707 of the Rules at the close of a business day:
 - (i) if there is a negative SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the SGC Clearing Member to the Trust by the given timeline; and
 - (ii) if there is a positive SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the Trust to the SGC Clearing Member by the given timeline.
- CDCC may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by CDCC (threshold expressed as a percentage). If CDCC proceeds with an intra-day SGC Securities Adjustment and such SGC Securities Adjustment is equal to or exceeds any applicable threshold, CDCC may require the SGC Clearing Member to make available SGC Securities for the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

2.1.3 SGC Concentration Limits

All SGC Securities Baskets will be comprised of the same eligible types of SGC Securities but will be distinguished by separate SCC Initial Securities Adjustments, SGC Securities Adjustments and SGC Concentration Limits. The concentration limits are determined by CDCC for the SGC Securities in a SGC Securities Basket, as published on CDCC's website.

2.2 Credit Rating Downgrade of a SGC Clearing Member

In the event an SGC Clearing Member fails to maintain the required rating as indicated in the Section D-703 of the Rules, the Corporation shall not accept for clearing any new SGC Repurchase Transactions from this SGC Clearing Members. SGC Repurchase Transactions that have already been novated to the Corporation prior to the change of rating may continue to settle.

In the event an SGC Clearing Members fails to maintain the required rating, CDCC will have the right, at its discretion, to apply and require from the impacted SGC Clearing Member any additional risk mitigation measures as CDCC deems appropriate including, without limitation, any additional SGC Securities Adjustment to cover for the additional risks that such a credit rating downgrade may create.

[...]

Section 6 : ACCEPTABILITY OF UNDERLYING INTERESTS

[...]

6.4 Acceptable Underlying Interests of Cash Buy or Sell Trades

For the application of Sections D-104 and D-603 of the Rules, Securities are acceptable for Cash Buy or Sell Trades clearing if they meet the following criteria:

- 1) The issuer must be eligible, which includes the following issues:
 - Bonds and Treasury bills issued by the Government of Canada, including real return issues;
 - Canada Mortgage and Housing Corporation debt securities;

- Bonds issued by Business Development Bank of Canada;
- Bonds issued by Export Development Canada;
- Bonds issued by Farm Credit Canada;
- Bonds issued by Canada Post; and
- Secured General Collateral Notes issued by a special purpose trust, at the request of a SGC Clearing Member.
- Bonds issued by certain provincial governments and provincial Crown corporations determined as acceptable by CDCC, excluding real return bonds, zero coupon bonds, and bonds with a maturity of less than one year.

[...]

Section 7 : APPENDIX

[...]

7.3.3 Entry in force

- Annually, or as soon as practicable upon the occurrence of a Recalibration Event subsequent to a Risk Model Change, the Corporation shall notify in writing each Limited Clearing Member of the new ER applicable to it.
- Subject to Section 7.3.4, new ERs shall become effective one calendar quarter after the date of the notification to each Limited Clearing Member of the new ER, and shall remain in force until a revised ER notified to the Limited Clearing Member either as a result of the ER annual review or subsequent to a Risk Model Change enters into force, in accordance with this section.

[...]



DEFAULT MANUAL

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[...]

SECTION 1 : DEFAULT MANAGEMENT PROCESS - TRIGGERS AND IMPLEMENTATION

The grounds and events which may trigger the implementation of the steps, decisions, enforcement actions or remedies that may be taken by the Corporation as part of its Default Management Process are described below. The Rules, notably Rule A-1A - Membership in the Corporation, Rule A-3 - Capital Requirements, Rule A-6 - Clearing Fund Deposits, Rule A-7 - Margin Requirements and Rule D-7 - Clearing of SGC Repurchase Transactions, support CDCC's authority in these actions and must be adhered to with extreme rigor.

1.1 Objectives of Default Management

[...]

- To minimize the market impact of the Default Management Process.
- With respect to SGC Repurchase Transactions, to obtain the best available market price for SGC Securities by executing a timely liquidation process, according to best practices. This includes, whenever possible, a Default Auction and/or the brokered sale of SGC Securities.

[...]

1.2 Triggers Leading to Non-Conforming or Suspension Status

Critical to the process of default management is, of course, defining the grounds and events which can lead a Clearing Member to default on its obligation and result in the Corporation declaring such member Non-Conforming or suspending it, where warranted. As a general rule, the Corporation views any situation which would, in its judgment, impede a Clearing Member's ability to meet its obligations in the manner specified in Section A-1A04 or Section D-709, as grounds to declare a Clearing Member Non-Conforming. Sections A-1A04, A-1A05 and D-709 of the Rules provide the details of the grounds and events that can lead the Corporation to declare a member Non-Conforming or suspend it, respectively.

[...]

1.4.4 Enforcement Actions Pursuant to a Suspension

In addition to the actions that the Corporation may take under the Non-Conforming Status, CDCC may, following the suspension of a Clearing Member:

- Seize all Margin Deposits posted to the Corporation by the suspended Clearing Member, including its contribution to the Clearing Fund and use it to satisfy such Clearing Member's obligations.
- Seize control of all Open Positions held by the suspended Clearing Member.
- Liquidate, on behalf of the Trust, all SGC Securities provided by the suspended SGC Clearing Member.
- Restrict a suspended SGC Clearing Member from initiating new SGC Repurchase Transactions.

[...]

1.5 Default Management Period

The Default Management Period defines the period during which Clearing Members' financial resources are exposed to losses following a default from one or more Clearing Members.

[...]

1.6 Default Waterfall: Application of Financial Resources to Cover Default-Related Losses

[...]

vi- **Application of Financial Resources to Cover SGC Repurchase Transaction Default-Related Losses**

- The Corporation will aim at maximizing, to the extent possible and on a reasonable efforts basis, the available liquidation value of the SGC Securities, through the use of Default Auction and/or broker sale. If there are any outstanding losses after the liquidation of SGC Securities pursuant to this Section 1.6, these losses are absorbed by the Noteholders.
- For greater certainty, SGC Clearing Members do not contribute to any Clearing Fund and Supplemental Liquidity Fund for SGC Repurchase Transactions. The Default Management Process for SGC Repurchase Transactions does not benefit from the Corporation's Default Risk Capital.

[...]

SECTION 2 : DEFAULT MANAGEMENT GOVERNANCE

[...]

2.1 Governance Structure

[...]

In the default process, it is important for the Corporation to react in as timely a fashion as possible to identify the potential for a default by a Clearing Member. As such, under the authority of the President or his designee, if at any point the Corporation receives information which would, in its view, acting reasonably, likely lead to a default event by any Clearing Member, it will, as soon as practicable, convene a meeting of the Default Management Committee. The DMC is comprised of the individuals holding the following positions (or their delegates):

- President of CDCC
- Vice-President & Chief Risk Officer, CDCC
- Vice-President & Chief Operating Officer, CDCC
- Vice-President & Chief Commercial Officer, CDCC
- Treasurer, CDCC
- Director Risk Oversight & Compliance, CDCC

- Vice-President Integrated Operations, GES
- Director Strategic Initiatives, CDCC
- Director, Business Advisory and Regulatory Affairs, CDCC
- Chief Compliance Officer, CDCC
- Head of Delivery, CDCC

[...]

The EC, chaired by the VP and Chief Risk Officer or his designee, is composed of all DMC members plus the following specialists (and/or any other representatives or designees deemed appropriate to involve in the process):

- MX Vice-President, Regulatory Division
- Head of Corporate Communications, TMX
- Director, Market Operations, MX
- Managers, Risk Management

It will be the responsibility of the EC to provide an ongoing assessment of the situation, and to report, as appropriate, to the Board, so as to ensure these bodies are in a position to render informed decisions throughout the process.

[...]

SECTION 3 : RISK MITIGATION TOOLS

[...]

3.2 Liquidation

Upon a Clearing Member suspension, the Corporation may either liquidate, close-out, and/or auction the suspended Clearing Member's positions as a means to crystallize their value and re-establish a matched book. The liquidation process may take place before, in parallel or subsequent to any auction(s) if the Corporation is not satisfied with the auction(s) outcome. For example, the liquidation could be preferred to the auction if the suspended Clearing Member's portfolio is small and liquid. A portfolio that was successfully liquidated shall be referred to as a "Liquidated Portfolio". For the liquidation of SGC Securities, the Corporation will use Default Auction and/or broker sale to obtain the best available liquidation value. Bids will be compared on each source and the prevailing bid will be accepted

3.3 Default Auction

CDCC may also choose to organize one or more Default Auctions as a means to re-establish a matched book following the suspension of a Clearing Member. The auction may affect a portion or the entirety of the suspended Clearing Member's unmatched positions. CDCC may also choose to organise one or more Default Auctions as a means to liquidate the SGC Securities

[...]

a) Invitation to participate in the auction

- [...]
- For SGC Securities Default Auctions, conforming SGC Clearing Members and any other Fixed-Income Clearing Members will be invited to participate in the Auction

[...]

c) Allotment of financial resources to Portfolio Incentive Pools

- Before conducting an auction, the Corporation will allot, on a preliminary basis, the Prefunded Financial Resources to each Portfolio Incentive Pool related to each Auction Portfolio or Liquidated Portfolio. Portfolio Incentive Pool is not applicable to SGC Securities Auction Portfolios.

[...]

3.3.2 Portfolio Auction

b) Bidding process

- Auction Participants may bid on one or more Auction Portfolios and must submit their bids specifying the value of collateral they want to receive to assume the positions and the settlement of all the positions contained in each Auction Portfolio. For SGC Securities Default Auctions, Auction Participants must submit bids by specifying a purchase price for each SGC Securities Auction Portfolio.
- Per CDCC Rule A-210(3) Brokers participating in SGC Securities Default Auction may be permitted (as outlined in SGC Securities Default Auction invitation) to share Default Auction information including bidding files with Clients and submit bids on behalf of Clients. Clearing Members acting as brokers must maintain clarity of broker role versus role of bidding for their own or an affiliate's account. Client bidding information must not be shared with personnel who bid on behalf of the Clearing Member's own or affiliate's account.

[...]

c) Prevailing Bidder determination

- The Corporation will determine the winner of the auction for each Auction Portfolio on the basis of which Auction Participant has requested the least amount of collateral to accept all the positions associated with the Auction Portfolio.

For SGC Securities Default Auction, the Corporation will determine the winner for each Auction Portfolio on the basis of which Auction Participant has offered the highest purchase amount for all the SGC Securities associated with that SGC Securities Auction Portfolio.

3.3.3 Post Auction Procedure

[...]

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the auction in addition to communicating to each Eligible Clearing Member the

bidding category they fall into (e.g. Low-bidder or Non-bidder). For SGC Securities Default Auction, the bidding category is not applicable as no Prefunded Financial Resources will be available for loss absorption.

[...]

3.3.4 Post SGC Securities Default Auction Procedure

Upon notification, the Prevailing Bidder will be required to create and execute purchase transactions for DVP settlement in CDS for the SGC Securities contained in the Auction Portfolio for which the Clearing Member was the Prevailing Bidder. Any failure by the Prevailing Bidder to complete any SGC Securities purchase transactions or meet any obligations associated with the SGC Securities Default Auction will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to honor its obligations. Prevailing bidder must initiate a trade for all SGC Securities purchase transactions with settlement date as prescribed by CDCC in SGC Default Auction instructions. Such settlement date will be no earlier than by the end of the next following Business Day and no later than the end of the second Business Day after the notification to the Prevailing Bidder.

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the SGC Securities Default Auction. For SGC Securities Default Auction, the bidding category is not applicable as no Prefunded Financial Resources will be available for loss absorption.

3.5 Liquidity Management

[...]

- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of surviving Clearing Members' Clearing Fund Requirements.
- The above liquidity management tools and facilities are not available for an SGC Securities Default Auction.

3.6 Loss Allocation Methodology

[...]

- In the event that the Corporation is later able to recover from the suspended Clearing Member any amount, such amount shall be returned to the other Clearing Members to compensate for any amount charged to them and for the financial resources levied from them as part of the Default Management Process in the reverse order that these resources were used to cover the losses.
- The above loss allocation methodology is not applicable following an SGC Securities Default Auction. Once all the SGC Securities have been liquidated through the use of Default Auction and or Broker Sales, CDCC will transfer all the proceeds from such liquidation to the Trust's liquidation settlement account.

[...]

SECTION 4 : RECOVERY PLAN

[...]

4.2.1 Recovery Powers to Extinguish Uncovered Losses or a Liquidity Shortfall

The exercise by the Corporation of the Recovery Powers of this Sub-section 4.2.1 is applicable to all Clearing Members, except SGC Clearing Members

[...]