



NOTICE TO MEMBERS

N° 130-22

October 26, 2022

### **REQUEST FOR COMMENTS**

#### **AMENDMENTS TO THE RULES OF THE CANADIAN DERIVATIVES CLEARING CORPORATION TO MODIFY THE FINAL SETTLEMENT PRICE OF THE ONE-MONTH CORRA FUTURES (COA)**

On October 25, 2022 the Board of Directors of Canadian Derivatives Clearing Corporation (“CDCC”) approved certain amendments to the section C-1701 to C-1705 of CDCC’s Rules in order to adjust the final settlement price calculation of the One-month CORRA Futures (“COA”) from an arithmetic average of the realized CORRA values to a geometric average, along with a change in the convention used with regard to the treatment of start/end of month that falls on a weekend or holiday, and the possibility to list the first four monthly contracts at first, instead of the seven contracts initially contemplated.

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 28, 2022. 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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Corporate Secretary and  
Executive Director, Legal Affairs  
Autorité des marchés financiers  
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For any question or clarification, Clearing Members may contact Sophie Brault, Legal Counsel, at [sophie.brault@tmx.com](mailto:sophie.brault@tmx.com).

George Kormas  
President



**AMENDMENTS TO THE RULES OF THE CANADIAN DERIVATIVES CLEARING CORPORATION TO  
MODIFY THE FINAL SETTLEMENT PRICE OF THE ONE-MONTH CORRA FUTURES (COA)**

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## I. DESCRIPTION

Canadian Derivatives Clearing Corporation (“**CDCC**”) wishes to amend its rules (the “**Rules**”) to align them with those of Bourse de Montréal Inc. (the “**Bourse**”). To that effect, the Bourse intends to modify its rules to adjust the final settlement price calculation of One-Month CORRA Futures (“**COA**”) from an arithmetic average of the realized CORRA values to a geometric average<sup>1</sup>, along with a change in the convention used with regard to the treatment of start/end of month that falls on a weekend or holiday, and the possibility to list the first four monthly contracts at first, instead of the seven contracts initially contemplated. CDCC therefore intends to align its Rules with the changes proposed by the Bourse with regards to the COA final settlement price calculation.

Since the beginning of the interest rate benchmark transition efforts in Canada, the Bourse and the Canadian Alternative Reference Rate Working Group (“**CARR**”) have worked together on a few key initiatives to promote the viability and usage of CORRA as key reference rate in Canada. As part of these efforts, the product specifications of COA and the Three-Month CORRA Futures (“**CRA**”) products (together, the “**CORRA Contracts**”) were designed in 2019 drawing upon market participant feedback. The Bourse started by concentrating its efforts on the development of the CRA product, considered a more direct alternative to the Three-Month Canadian Bankers’ Acceptance (“**BAX**”).

In the context of the recent announcement by Refinitiv to cease CDOR at the end of June 2024<sup>2</sup>, the various stakeholders in the Canadian lending and derivatives market expressed the need to have an active COA product as part of the development for a CORRA term structure. The COA specification changes are being proposed by the Bourse in order to standardize market conventions across CORRA-based product in Canada<sup>3</sup>, before the actual launch of the COA product.

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

## II. PROPOSED AMENDMENTS

CDCC hereby proposes amendments to Rule C-17 of the Rules to modify the final settlement price calculation. More specifically, the final settlement price calculation (currently designed to be based on an arithmetic average) would, pursuant to the amendments, be determined from a geometric average of the realized CORRA values in the contract month. The other changes proposed by the Bourse have no impact on the Rules. Furthermore, the Operations, Risk, and Default Manuals of the CDCC are not impacted by any of the proposed changes.

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<sup>1</sup> A geometric average differs from arithmetic in that it takes into account the compounding that occurs from period to period.

<sup>2</sup> [Refinitiv issues CDOR Cessation notice.](#)

<sup>3</sup> <https://www.bankofcanada.ca/markets/canadian-alternative-reference-rate-working-group/#conventions>

The proposed amendments are provided herein in Appendix “A”.

### **III. ANALYSIS**

#### **a. Background**

The clearing of the CORRA Contracts was implemented in 2020<sup>4</sup> but only CRA contracts were effectively launched at the time. The COA product will flow alongside the CRA product when trading starts. More specifically, the CORRA Contracts flow through clearing exactly like any other cash-settled Futures product. CDCC is using risk methodologies for the margin and clearing fund requirements that are similar to the ones used for the BAX.

From a functional point of view, the CORRA Contracts are listed on the Bourse and cleared at CDCC exactly like any other cash-settled Futures products; therefore the CORRA Contracts are subject to a daily variation margin and, at expiry, are cash-settled based on the index evaluated on the basis of realized CORRA values during the reference period. Also, the contract multiplier is CAD2,500, multiplied by the index, with an estimated notional value of near CAD250,000.

Except as otherwise determined by the Bourse, at all times, a total of twelve (12) CRA quarterly contracts are listed on the Bourse. The initial COA offering is expected to be limited to the first four (4) monthly contracts as it was decided sufficient by the Bourse to develop the targeted part of the CORRA term structure. The Bourse may launch the additional three (3) monthly contracts at a later date, should interest pick-up in the COA product. This differs from the initial proposal in 2020 where all seven contracts were expected to be listed at the same time.

#### **b. Objectives**

As a central counterparty clearing house, CDCC is structured to help facilitate the clearing and settlement process in the Canadian financial markets, this includes supporting initiatives from the Bourse. Accordingly, CDCC has determined that the Rules related to the COA product have to be amended. CDCC has also concluded that since its Manuals are already aligned with the proposed modifications by the Bourse, no amendments are required.

#### **c. Comparative Analysis**

Global derivative exchanges throughout the world are supporting the interest rate benchmark transition efforts, as it creates opportunities to enhance the array of risk management product offering. As a result,

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<sup>4</sup> [https://cdcc.ca/u\\_avis\\_en/074-20\\_en.pdf](https://cdcc.ca/u_avis_en/074-20_en.pdf)

global derivatives exchanges have positioned themselves to benefit from the emergence of new benchmark rates, by launching futures contracts on these new risk-free rates in the past few years.

CDCC conducted a comparative analysis of publicly available information on clearing activities. CDCC concluded that the clearing solution is in line with other traditional clearing houses such as the CME Clearing, whose contracts have specifications that are similar to the CORRA Contracts proposed by the Bourse.

#### **d. Analysis of Impacts**

##### **i. Impacts on Market**

The impact on Clearing Members will be minimal as COA is not yet available for trading and the adjusted product specifications are expected to kick-start the product. The proposed changes do not impact the Base Initial Margin and the Additional Margin methodologies as described in the CDCC Risk Manual. No other impacts on the methodologies used to calibrate the Clearing Fund and Supplemental Liquidity Fund are identified.

The historical daily price returns that are used to calibrate the margin parameters will be based on the latest contract specification from the Bourse, and constructed using historical data from the OIS Canadian market and realized CORRA rates, following the same methodology used to launch the CRA contracts in 2020. It is only when the negotiation of the new contract starts that CDCC will gradually incorporate the daily price returns of the contracts into the model for calibrating the margin rates.

CDCC is offering Intra-Commodity spreads for CORRA Contracts, i.e. 2-leg spread strategies and 3-leg butterfly strategies, both consecutive and non-consecutive. The tiering structure that was initially designed for COA products has been reviewed and aligned with the new listing proposition from the Bourse (i.e. listing of the first four monthly contracts at first). Furthermore, given the fundamental similarities between the BAX and the CORRA Futures markets, CDCC is offering an Inter-Commodity spread relief between these product groups<sup>5</sup>.

##### **ii. Impacts on Technology**

Technological impacts for CDCC are not significant as the product category – STIR Futures – already exists within CDCC’s technological environment. User acceptance testing has been done to ensure that the product is appropriately handled in all relevant IT systems. CDCC is also working with vendors and Clearing Members to ensure proper implementation of the product from a back-office perspective.

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<sup>5</sup> The calibration of the Inter-Commodity spread relief may however be null when the correlation dynamics between the products do not allow for margin relief

### **iii. Impacts on Trading Functions**

The proposed amendments will have no impact on Bourse trading systems or rules.

### **iv. Public Interest**

CDCC is of the view that the proposed amendments are not contrary to the public interest.

## **IV. PROCESS**

The proposed amendments, including this analysis, must be approved by CDCC's board of directors and submitted to the Autorité des marchés financiers, in accordance with the regulatory self-certification process, and to the Ontario Securities Commission in accordance with the rules stated in Appendix "A" of Schedule "C" of CDCC Recognition Order dated April 8, 2014 (as amended from time to time). The proposed amendments and analysis will also be submitted to the Bank of Canada in accordance with the Oversight Agreement. Subject to public comments, the proposed amendments are expected to take effect during the first quarter of 2023.

**APPENDIX A  
PROPOSED AMENDMENTS TO THE RULES**

**BLACKLINE VERSION**

**CANADIAN DERIVATIVES CLEARING CORPORATION**

**RULES**

**~~MAY 2~~, 2022**



[...]

## RULE C-17 – CORRA FUTURES (SYMBOL – CRA & COA)

The Sections of this Rule C-17 are applicable only to One-Month CORRA Futures (COA) and Three-Month CORRA Futures (CRA) (the “CORRA Futures”).

### Section C-1701 – Definitions

Notwithstanding Section A-102, for the purposes of the CORRA Futures contracts, the following terms are as defined:

~~“Average daily CORRA” – COA – The Average daily CORRA is the arithmetic average of daily CORRA values during the contract (settlement) month. It is calculated in accordance with the rules of the Exchange.~~

~~“Compounded daily CORRA” – CRA – The Compounded daily CORRA is the compounded daily CORRA values over the reference period: during~~

~~CRA - the reference quarter of the contract~~

~~COA - the contract settlement month-~~

It is calculated in accordance with the rules of the Exchange and the reference ~~period~~ quarter is determined by the Exchange.

~~“CORRA” – means the Canadian Overnight Repo Rate Average (CORRA) as determined by the appointed CORRA benchmark administrator.~~

~~“CORRA Index” – the CORRA Index is calculated based on realized CORRA values during the settlement month of the contract (COA) or the reference quarter of the contract (CRA).~~

~~– COA – The CORRA Index for COA is 100 minus the Average daily CORRA.~~

~~– CRA – The CORRA Index for CRA is 100 minus Compounded daily CORRA.~~

~~“Final Settlement Price” – The Final Settlement Price shall be determined by the Exchange on which the Futures trade on the First Business Day following the last day of trading. It is equal to the CORRA Index.~~

~~“Multiplier” – The Multiplier is the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures trade.~~

~~“Underlying Interest” – means:~~

~~– COA – the Average daily CORRA.~~

~~– CRA – the Compounded daily CORRA.~~

### **Section C-1702 – Settlement in Cash Through the Corporation**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of each position opened on or prior to the last day of trading shall be the difference between

- (i) the Final Settlement Price; and
- (ii) the Settlement Price of the contract on the last day of trading,

multiplied by the Multiplier of the contract.

### **Section C-1703 – Tender Notices**

Rule C-5 shall not apply to CORRA Futures as they are cash-settled.

### **Section C-1704 – Adjustments**

No adjustments will ordinarily be made in the terms of the CORRA Futures in the event that the CORRA Index is changed. However, if the Corporation shall determine in its sole discretion that any such change causes significant discontinuity in the level of the CORRA Index, the Corporation may adjust the terms of the affected CORRA Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to repo transactions and the Corporation determines that a discontinuity in the level of the CORRA Index is caused by such a Government order, it shall take such action as it deems necessary and fair under the circumstances.

### **Section C-1705 – Unavailability or Inaccuracy of Current Value**

- (1) If the Corporation shall determine that the Final Settlement Price for any series of CORRA Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such time as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
  - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange on which the Futures trade shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement Price it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

**APPENDIX A  
PROPOSED AMENDMENTS TO THE RULES  
CLEAN VERSION**

**CANADIAN DERIVATIVES CLEARING CORPORATION  
RULES  
, 2022**

[...]

## **RULE C-17 – CORRA FUTURES (SYMBOL – CRA & COA)**

The Sections of this Rule C-17 are applicable only to One-Month CORRA Futures (COA) and Three-Month CORRA Futures (CRA) (the “CORRA Futures”).

### **Section C-1701 – Definitions**

Notwithstanding Section A-102, for the purposes of the CORRA Futures contracts, the following terms are as defined:

**“Compounded daily CORRA”** – The Compounded daily CORRA is the compounded daily CORRA values over the reference period:

CRA - the reference quarter of the contract

COA - the contract settlement month

It is calculated in accordance with the rules of the Exchange and the reference period is determined by the Exchange.

**“CORRA”** – means the Canadian Overnight Repo Rate Average (CORRA) as determined by the appointed CORRA benchmark administrator.

**“CORRA Index”** – the CORRA Index is calculated based on realized CORRA values during the settlement month of the contract (COA) or the reference quarter of the contract (CRA). The CORRA Index is 100 minus Compounded daily CORRA.

**“Final Settlement Price”** – The Final Settlement Price shall be determined by the Exchange on which the Futures trade on the First Business Day following the last day of trading. It is equal to the CORRA Index.

**“Multiplier”** – The Multiplier is the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures trade.

**“Underlying Interest”** – means: the Compounded daily CORRA.

### **Section C-1702 – Settlement in Cash Through the Corporation**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final

settlement of each position opened on or prior to the last day of trading shall be the difference between

(iii) the Final Settlement Price; and

(iv) the Settlement Price of the contract on the last day of trading,

multiplied by the Multiplier of the contract.

### **Section C-1703 – Tender Notices**

Rule C-5 shall not apply to CORRA Futures as they are cash-settled.

### **Section C-1704 – Adjustments**

No adjustments will ordinarily be made in the terms of the CORRA Futures in the event that the CORRA Index is changed. However, if the Corporation shall determine in its sole discretion that any such change causes significant discontinuity in the level of the CORRA Index, the Corporation may adjust the terms of the affected CORRA Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to repo transactions and the Corporation determines that a discontinuity in the level of the CORRA Index is caused by such a Government order, it shall take such action as it deems necessary and fair under the circumstances.

### **Section C-1705 – Unavailability or Inaccuracy of Current Value**

- (3) If the Corporation shall determine that the Final Settlement Price for any series of CORRA Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such time as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
  - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (4) The Final Settlement Price as reported by the Exchange on which the Futures trade shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement Price it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.