NOTICE TO MEMBERS

N° 149-23

December 12, 2023

REQUEST FOR COMMENTS

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

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

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 the CDCC have the power to approve the adoption or amendments of the Rules of the 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 **January 19, 2024**. Please submit your comments to:

Maxime Rousseau-Turenne
Legal Counsel
Canadian Derivatives Clearing Corporation
1800-1190 av. des Canadiens-de-Montréal, P.O. Box 37
Montreal, Quebec H3B 0G7
Email: legal@tmx.com

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

M[e] Philippe Lebel Corporate Secretary and Executive Director, Legal Affairs Autorité des marchés financiers Place de la Cité, tour Cominar 2640 Laurier boulevard, suite 400 Québec (Québec) G1V 5C1 Fax : (514) 864-8381 E-mail:consultation-en-cours@lautorite.qc.ca	Manager, Market Regulation Market Regulation Branch *Ontario Securities Commission* Suite 2200, 20 Queen Street West Toronto, Ontario, M5H 3S8 Fax: 416-595-8940 Email: marketregulation@osc.gov.on.ca

For any question or clarification, Clearing Members may contact Maxime Rousseau-Turenne, Legal Counsel, at maxime.rousseauturenne@tmx.com

George Kormas
President

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

I. DESCRIPTION

The Canadian Derivatives Clearing Corporation ("CDCC"), wishing to support Bourse de Montréal Inc. (the "Bourse")'s adoption of reference rate fallback procedures in response to the announced permanent cessation of the calculation and publication of all tenors of the Canadian Dollar Offered Rate (CDOR)[1], hereby proposes to amend its rules (the "Rules") to include fallback procedures for benchmark reference rates, namely to modify the settlement price procedure for Three-Month Canadian Bankers' Acceptance Futures (BAX) contracts to allow for their conversion to Three-Month CORRA Futures (CRA) contracts, before the discontinuation of CDOR (the "Cessation Event").

To that effect, the fallback procedures proposed in response to the Cessation Event would be aligned with fallback provisions published by the International Swaps and Derivatives Association (ISDA) for the Canadian market in October 2020[2], as well as with other comparable jurisdictions[3], accordingly including an applicable fallback rate and a final settlement price determination methodology comparable to contractual provisions in the industry (i.e. to the same degree as that of the ISDA fallback conventions for the Canadian over-the-counter ("OTC") derivatives market).

The Proposed Amendments would therefore support a seamless interest rate transition from CDOR-based underlying derivatives to CORRA[4]-based underlying derivatives. CDCC submits that these amendments will serve the needs of members and facilitate greater market efficiency through improved execution quality.

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

II. PROPOSED AMENDMENTS

CDCC proposes to introduce Section C-1204A in Rule C-12 of the Rules, which, in compliance

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[1] The discontinuation of CDOR will come into effect on June 28, 2024, as announced on May 16, 2022 by Refinitiv Benchmark Services (UK) Limited ("Refinitiv"), the administrator of CDOR.

[2] ISDA 2020 IBOR Fallbacks Protocol

[3] E.g.: CME converting Eurodollar-based futures to SOFR-based futures in preparation for the discontinuation of the USD LIBOR.

[4] Canadian Overnight Repo Rate Average

with Section C-1204 of the Rules[5], will provide the market with a clear fallback procedure with regards to the final settlement price calculation of the BAX contract, for which it is proposed that, on or around April 26, 2024 (the "Conversion Date"), all remaining open positions that expire after the Cessation Event will be terminated and replaced with a corresponding open position in CRA contracts (the "Rules Change"). Following conversion, the June 2024 BAX contract - the only BAX contract expiring before the Cessation Event, and therefore not in scope for conversion - will be the only remaining listed BAX contract and will remain available for trading until its expiration on June 17, 2024 (the "Last BAX Contract"). The new fallback procedure would not apply to Options on BAX contracts since no listed Option on BAX contract expires after the Cessation Event[6], and all outstanding such contracts will expire according to the standard process.

Additionally, to take into account the Cessation Event in CDCC's daily operations, CDCC intends to modify on the Conversion Date its Operations Manual to transition the rate used to calculate fines from CDOR to CORRA (the "Operations Manual Change"). Such fines are applicable in the event of a failure to return distributed securities or securities subject to a substitution notice under CDCC's Fixed Income variation margin process, and the transition to CORRA does not impact in any way the rest of the process.

Finally, to ensure a clear transition away from BAX, CDCC intends to implement housekeeping changes and remove all references to BAX in its Operations and Risk Manuals after the expiration of the Last BAX Contract (the "Housekeeping Change"; together with the Rules Change and the Operations Manual Change, the "Proposed Amendments").

The Proposed Amendments are deemed essential in response to Canada's interest rate benchmark transition caused by the Cessation Event, and the resulting planned conversion of BAX contracts into CRA contracts. As liquidity in BAX products starts to fade, as it is expected in the market as we approach the Cessation Event, a strong underlying fallback procedure will further assist with the market's adoption of CORRA and provide members with a holistic solution for transitioning short-term price risk. CDCC is of the view that the Proposed Amendments are consistent with its objective of providing members with an efficient price discovery mechanism and hedging utility.

The Proposed Amendments are provided herein in Appendix "A".

III. ANALYSIS

a. Background

International context

In 2013, following the London IBOR scandal, the Financial Stability Board (the "FSB") established a

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[5] Section C-1204 states that "[...] if the Corporation determines, in its sole discretion, that any such change [of the Canadian Bankers' Acceptance Index] causes significant discontinuity in the level of the Canadian Bankers' Acceptance Index, the Corporation may adjust the terms of the affected Canadian Bankers' Acceptance Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions."

[6] Notice to Members 077-23 - Delisting of the mid-curve options on BAX and Advisory Notice A23-006 - BAX listing cessation

group composed of central banks and regulatory agencies, which focused on reforming the benchmark interest rate landscape (the "Steering Group"). The main recommendations of the Steering Group were: 1) the development of alternative reference rates (mainly overnight risk-free rates, as they have more desirable features of reliable reference rates), and 2) a transition away from Interbank Offered Rates ("IBORs") across all major currencies. Since then, working groups across all main IBOR jurisdictions have been formed to select alternative reference rates and provide an orderly transition.

In 2016, alongside this initiative, the FSB mandated ISDA to work towards the development of fallback language for derivative contracts referencing IBORs. In the context of interest rate derivatives, fallback language refers to the contractual provisions that describe the process through which an alternative rate is selected if a benchmark is not available. Fallback language for a benchmark rate usually includes three different components: trigger events, replacement rate and replacement adjustment.

Robust fallback language is required in financial derivatives contracts to enable a smooth transition in the event of a benchmark cessation event. Firms implementing such well-defined fallbacks in their derivatives contracts to mitigate the impact of an IBOR cessation event would be safe in the knowledge that if they don't finish their transition efforts in time, a workable back-up will automatically kick in.

In October 2020, after multiple market consultations with regulators, industry associations and members, ISDA published two documents that have been in effect since January 25, 2021: the IBOR Fallbacks Supplement and IBOR Fallbacks Protocol[7]. This marked a major step towards reducing the systemic risk of a key IBOR becoming unavailable while members continue to have exposure to that rate. Since then, more than 5,900 entities across 70 jurisdictions have adhered to the new ISDA protocol that allows firms to incorporate new, more robust fallbacks into existing derivatives contracts linked to IBORs.

Canadian context

In May 2022, Refinitiv announced the official discontinuation of CDOR[8], stating that the calculation and publication of all tenors of CDOR will permanently cease immediately following a final publication on Friday, June 28, 2024. As CDOR is the underlying driving rate for the BAX, the Bourse and CDCC announced a new BAX Fallbacks Implementation Plan (together with any subsequent updated version, the « Implementation Plan")[9] in June 2023, including a conversion process from BAX to CRA in anticipation of the cessation. CDCC now intends on supporting the announced conversion with the Proposed Amendments to its Rules.

b. Objectives

CDCC proposes to amend the Rules and Operations Manual to introduce new fallback procedures and transition guidance for the discontinued reference rate CDOR, fulfilling the following objectives:

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[7] ISDA 2020 IBOR Fallbacks Protocol
[8] Refinitiv Benchmark Services (UK) Limited Issues Canadian Dollar Offered Rate Cessation Notice
[9] Advisory Notice A23-007 - BAX Fallbacks Implementation Plan

- Provide guidance to the market regarding the soon-to-be-discontinued CDOR-based BAX product and its conversion to CRA;
- Offer members greater visibility and understanding of their risk positions;
- Provide Rules alignment with regulatory initiatives associated with the benchmark reference rate reform in the industry;
- Set clear transition procedures, including settlement procedures, for discontinued reference rates.

CDCC further submits that the Proposed Amendments will increase the utility and the effectiveness of its short-term Canadian interest rate market, strengthen the functioning of the Canadian derivatives market generally, and better serve the interests of members.

c. Comparative Analysis

Global derivative exchanges and clearing houses throughout the world have also reviewed or are currently reviewing the fallback procedures for all of their respective products referencing IBORs:

- OTC Cleared Derivatives

The CME Group ("CME") and the LCH Group ("LCH") have each issued a statement supporting ISDA's work on fallback language at the end of 2018. For cleared derivatives, CME has updated its rulebook to align with ISDA standards and include revised fallback language, following consultations with its clients. LCH has also announced its intentions to align with ISDA's amended definitions for new transactions entered on or after the fallback protocol effective date. LCH also specified that outstanding legacy transactions will be amended to incorporate the corresponding revised definition. These announcements mean that cleared Canadian OTC swaps based on three-month CDOR will rely on the ISDA fallback protocols in the case of an index cessation event[10].

- Exchange-traded Derivatives

The Intercontinental Exchange, Inc. ("ICE") and CME[11] have updated their rules and product offering to provide more transparency on the fallback provision of their IBOR-based futures in light of the upcoming benchmark cessation of their underlying rate. In both cases, the added language provided details on the conversion mechanism to the product referencing the recommended alternative benchmark rate.

CDCC is now suggesting fallback provisions similar to those of comparable exchanges:

[10] https://www.lch.com/system/files/media_root/lch-cad-cdor-conversion-consultation.pdf
[11] https://www.cmegroup.com/content/dam/cmegroup/notices/ser/2022/12/SER-9115.pdf

Exchange	Comparable Products	Trigger event	Replacement product based on the recommended fallback rate
Montréal Exchange	Three-Month Canadian Bankers' Acceptance Futures	Cessation of CAD CDOR announced in May 2022	Three-Month CORRA Futures
CME	Three-month Eurodollar futures	Cessation of USD LIBOR announced in November 2022	Three-month SOFR Futures
ICE	Three-month Sterling futures	Cessation of GBP LIBOR announced in March 2021	Three-month SONIA Futures

d. Analysis of Impacts

i. Impacts on Market

The Proposed Amendments aim to provide the market with a clear fallback procedure with regards to the final settlement price calculation of the widely used BAX contract. As global survey-based benchmarks continue to face increased discontinuation risk and as the Cessation Event approaches in Canada, appropriate fallback language is required in financial contracts to ensure a smooth transition before the discontinuation of CDOR.

The Proposed Amendments will provide the required transparency and structure underlying the transition that will allow members to proactively manage their positions and reduce market disturbance in the months leading to the Cessation Event. Finally, on or around April 26, 2024, all members' remaining open positions in BAX contracts that expire after the Cessation Event will be terminated and replaced with a corresponding open position in CRA contracts.

On the Conversion Date, the Bourse will publish a termination price for each of the BAX contracts subject to conversion, equal to their equivalent CRA contracts minus the ISDA spread adjustment. In order to ensure a seamless transition from a Variation Margin calculation perspective, these termination prices will be used for the last mark to market computation on BAX positions.

The Proposed Amendments mark the final step to CDCC and the Bourse's coordinated approach to the discontinuation of CDOR[12].

ii. Impacts on Technology

The Proposed Amendments will have no impact on the technological systems of CDCC, the

[12] CDCC and the Bourse undertook various joint measures to support a seamless transition to CORRA, including: 1) the listing cessation of BAX; 2) The inclusion of CRA/BAX spreads on Bloomberg & Refinitiv; 3) The listing of One-Month CORRA Futures; and 4) An updated BAX expiry.

Bourse, or any third-parties.

As outlined in the Implementation Plan, on the Conversion Date, following close of business, CDCC will input closing BAX trades and simultaneously input opening equivalent CRA trades. The trades will be inputted by CDCC using the Conversion Date's settlement price (i.e. the termination price for each BAX contract). However, given that the ISDA spread contains 5 decimals and BAX settlement prices are truncated to 4 decimals, CDCC will perform cash adjustments directly in the margin account of Clearing Members.

To facilitate the reconciliation by members of the trades entered on their behalf, closing a BAX position and opening its related CRA position, Clearing Members will find these trades in their usual CDCC trading reports. The cash adjustments will be provided to Clearing Members via a separate file, based on the BAX positions of the Clearing Member.

With regards to the Gross Client Margin (GCM) declaration process, Clearing Members, on the business day following the conversion, will be required to include in their usual GCM file their CRA positions, adjusted so that to include the converted BAX positions, as applicable. CDCC shall therefore no longer receive any declaration on the converted BAX contracts on and after this date. Should CDCC receive a GCM declaration containing converted BAX contracts, CDCC would not include these declared positions in the GCM margin computation.

iii. Impacts on Trading Functions

The Proposed Amendments are the result of a coordinated approach with the Bourse to the discontinuation of CDOR. The rules of the Bourse will be amended to include the same fallback procedures for benchmark reference rates, to modify the settlement price procedure for BAX contracts to allow for the transition from CDOR-based underlying derivatives (BAX) to CORRA-based underlying derivatives (CRA) before the discontinuation of CDOR.

The Proposed Amendments will have no other impact on the trading functions of the Bourse.

iv. Public Interest

CDCC considers the Proposed Amendments to be in the interest of the public as the addition of fallback language aligned with industry conventions (i.e. ISDA fallback protocol and comparable jurisdictions) will provide the market with a transparent settlement procedure and eliminate any uncertainty associated with the transition from CDOR to CORRA. The amendments will provide members with guidance and relevant conversion processes following the discontinuation of CDOR. These fallback principles are deemed operationally simple and preserve alignment with wider industry transition timelines. The marketplace will benefit from a path consistent with the intimately linked OTC market.

The implementation of clear fallback language will facilitate the management and smooth transitioning of existing positions for members. The Implementation Plan underlying the rule changes has already been communicated to members and feedback was gathered with respect to the conversion.

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 "A" CDCC Recognition Order dated June 15, 2023. The Proposed Amendments and analysis will also be submitted to the Bank of Canada in accordance with the Oversight Agreement. Subject to public comments and following regulatory approval, the Rules Change is expected to take effect during Q1-2024, for a planned conversion of BAX to CRA on or around April 26, 2024, and the Operations Manual Change is expected to take effect on such Conversion Date. The Housekeeping Change is expected to take effect in June 2024, after the expiry of the Last BAX Contract on June 17, 2024.

Rules

[...]

Section C-1201 - Definitions

[...]

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

[...]

Section C-1204A - Reference Rate Fallback Procedures

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

a) BAX Fallback Effective Date

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

b) BAX Fallback Procedure

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

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

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

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

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

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

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

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

c) Clearing of the Replacement Position

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

d) Termination of Trading

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

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

[...]

Operations Manual

[...]

FIXED INCOME VARIATION MARGIN DELIVERY FAILURE

Fines

CDCC will apply fines for failure to return distributed securities.

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

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

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

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

[...]

Housekeeping

Operations Manual

[...]

FUTURES

Submission of Tender Notices

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

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

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

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

[...]

[...]

6.1.2 Intra-Commodity

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

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

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

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

[...]

6.5 MARGIN INTERVAL

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

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

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

[...]

AMENDMENTS TO THE CDCC RULES AND MANUALS

CLEAN VERSION

Rules

[...]

Section C-1201 - Definitions

[...]

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e) BAX Fallback Effective Date

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

f) BAX Fallback Procedure

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

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

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

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

minus

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

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

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

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

g) Clearing of the Replacement Position

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

h) Termination of Trading

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

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

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Operations Manual

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

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

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Housekeeping

Operations Manual

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[...]

Risk Manual

[...]

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

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

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

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

[...]

6.5 MARGIN INTERVAL

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

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

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

[...]