



NOTICE TO MEMBERS

N° 2021 – 164

November 5, 2021

SECOND REQUEST FOR COMMENTS

ADDITIONAL AMENDMENTS TO THE RULES, OPERATIONS MANUAL, RISK MANUAL AND DEFAULT MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION ON THE GROSS CLIENT MARGIN MODEL INITIATIVE

On May 6, 2021, the Board of Directors of the Canadian Derivatives Clearing Corporation (“CDCC”) approved certain amendments to the Rules, Operations Manual, Risk Manual and Default Manual of CDCC (the “Rules”) in connection with the introduction of the Gross Client Margin Model (the “Approved Proposal”). The Approved Proposal was published for comments on July 5, 2021 ([Notice to Members 102-21](#)).

Following the publication of the Approved Proposal, CDCC approved additional modifications to the Rules on Gross Client Margin on November 2, 2021.

Please find enclosed an analysis document as well as the proposed Rule 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 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 **December 15, 2021**. 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 Sophie Brault, Legal Counsel, at 514-268-0591 or at sophie.brault@tmx.com.

George Kormas
President



**ADDITIONAL AMENDMENTS TO THE RULES, OPERATIONS MANUAL, RISK MANUAL AND
DEFAULT MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION ON THE GROSS
CLIENT MARGIN MODEL INITIATIVE.**

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I. DESCRIPTION

The Canadian Derivatives Clearing Corporation (hereafter “**CDCC**” or the “**Corporation**”) is proposing additional changes to its Rules, Operations Manual, Risk Manual and Default Manual (the “**Rules**”) pertaining to the Gross Client Margin Regime (the “**GCM Regime**”) initiative with the intent of clarifying the proposal made on July 5, 2021 under the Notice to Members 2021-102 (hereinafter the “**Notice to Members**”). As such, CDCC is now ready to present in more detail its proposed default waterfall resource impacts (including a methodology update on the Additional Capital Margin Risk), default management, portability procedures, and other operationalization details.

CDCC wishes to remind all the stakeholders that the GCM model is a multi-year project scheduled for a single implementation expected in the second quarter of 2022.

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

II. PROPOSED AMENDMENTS

In this document, CDCC will propose additional amendments in order to clarify its previous proposal submitted through the Notice to Members. Hence, CDCC is clarifying its prior definition of a Receiving Clearing Member (Section A-102) and made a minor correction to subsection A-401 (3)(b) of the Rules. With respect to the Risk Manual, CDCC is proposing certain amendments relating to the Glossary and Margin Requirement (Section 1.1) and is further clarifying the Risk Mitigation Tools under Section 3 of the Default Manual. Finally, CDCC has incorporated additional details on timing and reporting into its Operations Manual (Sections 2-1, 2-2 and 3-2).

III. ANALYSIS

a. Background

Key new features of the GCM model were proposed in the detailed analysis under the Notice to Members, establishing the new structural changes in connection with the margin, the individual client positions declaration, the collateral segregation & management of the accounts, and finally, the foundations of the portability process.

As part of the second phase of the GCM project, the Corporation is now ready to propose additional features & clarifications covering different aspects of the risk analysis for the GCM model. These additional assessments complete the impact analysis and build on the key new features of the GCM model that were proposed in the first phase of the project.

Additional features resulting from the new GCM model are the following:

- i. Update on default waterfall resources under the GCM model
- ii. Update on the default and portability process
- iii. Update on other operational details

The details of each of these additional features are outlined below.

b. Description and Analysis of Impacts

i. Update on default waterfall resources under the GCM model

Risk Manual

The CDCC is proposing certain amendments to its Risk Manual in relation with the default waterfall resources and further specify the use of the Base Initial Margin based on the CDCC Book Positions (the definition has been clarified) or the GCM Declaration File (as already defined in the Operations Manual under the Notice to Members):

- A new calibration for the Additional Capital Margin Risk, and added precision for the use of the Base Initial Margin based on the CDCC Book Positions.
- Precision added for the Clearing Fund requirement allocation methodology using the Base Initial Margin based on the CDCC Book Positions.

In addition, CDCC wishes to add a minor clarification to the Notice to Members under the Additional Margin for Intra-Day GCM Risk specifically to the Variation Margin for Options which will be included in the Base Initial Margin measures (integrated in the same way as it is today).

- Proposition of a new calibration for the Additional Capital Margin Risk

The Additional Capital Margin Risk is used to mitigate the credit exposure of all Clearing Members (excluding Limited Clearing Members) that arises if the exposure of a Clearing Member is superior to its capital amount. Under the current methodology, CDCC compares the Clearing Member's capital amount with its Base Initial Margin and requires the Clearing Member to collateralize the full difference as part of the Additional Capital Margin Risk (i.e. capital to margin ratio methodology).

The Corporation wishes to maintain the current methodology:

- Evaluation of the capital level using the following two standard capital measures: Net Allowable Assets for dealers and Common Equity Tier 1 for banks,
- Use of the Base Initial Margin based on the CDCC Book Positions (appropriately reflects the risk to the Corporation of a Clearing Member defaulting for purposes of the capital margin risk),
- Evaluation frequency on an intraday and end-of-day basis.

However, CDCC proposes to reduce the calibration of the end charge by requiring the Clearing Member to collateralize half of the difference between the Base Initial Margin and the capital amount (i.e. 50%, or 1:2 capital to margin ratio), rather than the full difference (i.e. 100%, or 1:1 capital to margin ratio). This change is motivated by assurances that the level of resources is sufficient, as well as strong incentives to realign with our peers (details in section c. Comparative analysis), and in a context where the level of credit resources is expected to increase under the GCM model (details in section IV. Impacts on Market). Moreover, the Corporation's objective is also to find a better balance between the strict collateralization and the monitoring of this risk in order to control the procyclicality aspect of this Additional Margin.

More specifically, the Clearing Member's Additional Capital Margin Risk is fully considered as part of the default waterfall credit resources, and therefore, used in the evaluation of the Cover 1 assessment¹. The level of credit resources in excess of the Cover 1 shortfall remains sound and stable, which strongly suggests that the proposed calibration is appropriate. Moreover, this will allow the CDCC to remain attractive by preventing the mitigation of this risk to be overly conservative, as it is currently suggested by the benchmarking analysis.

In addition to the current Cover 1 monitoring, the Corporation will leverage on the current credit monitoring to assess the adequacy of the capital to margin ratio for each Clearing Member. Should the credit worthiness of a Clearing Member significantly deteriorate, the CDCC would be in the capacity to increase the calibration of the capital to margin ratio above the proposed 50%.

- Impact of the GCM model on the Clearing Fund methodology

The methodology used to calibrate the size of the Clearing Fund ("CF") is not directly impacted by the GCM initiative. In addition, CDCC wishes to maintain the use of the Base Initial Margin based on the CDCC Book Positions in order to allocate the CF requirement to each Clearing Member. The same current methodology for the aggregation of shortfalls will be used and will be aligned with the new risk account structure proposed under the GCM Regime. This means that there could be an impact on the CF size for months where such size is driven by a Clearing Member that is impacted by the GCM initiative.

Nevertheless, the relative contribution of each Clearing Member to the CF will be unchanged since the allocation methodology will remain the same. Indeed, any potential impact on the overall size of the CF due to segregation and portability will be mutualized in the same fashion, which will also ensure a stable transition during the implementation of the GCM model.

¹ The Cover 1 regulatory standard requires the Corporation to have at all times sufficient financial resources to cover the default of the Clearing Member and its Affiliates representing the largest stressed aggregate credit exposure for the Corporation)

ii. **Update on the default and portability process**

- Rationale of the proposed change

CDCC is clarifying its Rules and procedures in regards to the transfer by way of Porting of individual client Risk Accounts and consequently, believes that it will facilitate the Porting process for clients, Clearing Members and the Corporation. As stated in the Notice to Members, CDCC strongly encourages clients to seek *ex ante* arrangements with an alternate Clearing Member before a potential default event. Although not mandatory, having these arrangements in place will increase the likelihood of Porting success by expediting the process for both the alternate Clearing Member and the prospective client.

- Update to the Rules

CDCC is enhancing the definition of a Receiving Clearing Member and will now consider that once the Receiving Clearing Member provides its agreement to the transfer by way of Porting, this acceptance is irrevocable. CDCC also clarified that a client who was able to make an arrangement with a Receiving Clearing Member is responsible to provide CDCC with its porting instruction (via their Receiving Clearing Member or by any other acceptable manner to CDCC) before the porting cut-off time. This also means that any client who fails to provide such porting instruction will have implicitly consented to have its positions closed-out by CDCC. Once CDCC reviews the porting form and confirms proceeding with the transfer by way of Porting of a client, the Receiving Clearing Member becomes fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period. This means that any obligations that were assumed by the Corporation between the suspension of a Clearing Member by the CDCC Board, and the transfer by way of Porting will be assumed by the Receiving Clearing Member.

CDCC also clarified that once the Receiving Clearing Member accepts a client from a suspended Non-Conforming Clearing Member, this Receiving Clearing Member becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting (including the client legal authority).

It should be noted that any failure by the Receiving Clearing Member to comply with obligations related to porting could be a ground for declaring such Clearing Member as Non-Conforming.

- Update to the Default Manual

The procedure related to the transfer by way of Porting will start immediately after the suspension of the Clearing Member and will continue until the end of the Default Management Period. CDCC will use its best efforts, if it deems appropriate under the circumstances, following the request of a client as submitted via their receiving Clearing Member (or by any other acceptable manner communication method as determined by CDCC), to transfer that client's

Open Positions and the associated collateral (referred to herein as Porting Base Initial Margin Collateral) held by the Corporation in respect of such individual client Risk Account.

During the Default Management Period, CDCC will perform a Suspension Point Margin Run to produce reports containing porting information data and will make them available to each client via their suspended Non-Conforming Clearing Member. The suspended Non-Conforming Clearing Member will be responsible to transfer these reports to the appropriate client, which in turn will use these reports to secure an arrangement with a Receiving Clearing Member. That Receiving Clearing Member will then provide a porting form to CDCC containing its and the client's agreement to the porting. Upon doing so, as stated in the section above (Update to the Rules), the Receiving Clearing Member's acceptance will be irrevocable and additionally, it will become fully liable for the client identity. Once CDCC confirms proceeding with the transfer by way of Porting, the latter will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

iii. Update on other operational details

- Operations Manual

The Operations Manual is being updated in order to reflect the impacts of the GCM end of day process:

1. A new GCM Declaration Report (MP55) will be produced after the GCM end of day process (9:00 p.m.). The report will list the Clearing Member's Clients Futures and Options on Futures Open Positions declared via the GCM Declaration File with the associated margin figures of each individual client account within the Client Account Omnibus structure.
2. The end of day reports will be all available from 9:30 p.m. when the GCM process is complete although some reports will be available before 9:30 p.m. The reports that will be produced after the GCM process are the MA01, MP55, MS01 (EOD version), MS06 (EOD version) and End of day TagLogs (TLGs). The other reports will be produced as per the current timelines.
3. The overnight clearing cycle first monitoring will move from 9:00 p.m. to 10:00 p.m. in order to start the monitoring with the latest GCM figures. The monitoring will continue to run every hour until the end of the overnight clearing cycle.

- Default and porting period

After the suspension is declared by the CDCC Board, CDCC will take control of the defaulting Member Clearing Applications (SOLA Clearing and SFTP accounts). This suspended Non-Conforming Clearing Member will still have access to its accounts but in read/view only in order to facilitate the porting process.

The porting of the suspended Non-Conforming Clearing Member clients' positions and collateral to the Receiving Clearing Members will be initiated by CDCC in CDCC Clearing Application ("SOLA

Clearing"). The Receiving Clearing Members will have to confirm the ported positions and collateral in SOLA Clearing and also in their account at the Canadian Depository for Security ("CDS") for the collateral.

The ported positions will be transferred with a similar individual client Risk Accounts structure that CDCC had with the suspended Non-Conforming Clearing Member. The Receiving Clearing Member will be responsible to move those positions to their own client account structure if they want to (i.e. omnibus/individual). The ported collateral will be allocated to the GCM Regime Margin Accounts.

The CDCC will assume the obligations of the suspended Non-Conforming Clearing Member during the porting period. As a result, CDCC will pay and collect in its bank account any daily settlement (e.g. Gains and Losses) until the positions are ported. Once the porting is confirmed by CDCC all obligations contracted by CDCC will be assumed and repaid by the Receiving Clearing Member.

c. Comparative analysis

A thorough comparative analysis was presented for the structural components of the GCM model in the detailed analysis published under the Notice to Members, as part of the phase 1 of the GCM project.

As part of the second phase of the GCM project, the CDCC conducted a benchmarking analysis of other CCP's methodologies for capital risk. CDCC consulted publicly available information² about CME Clearing ("CME"), ICE Clear U.S. ("ICE"), Australian Securities Exchange ("ASX") and Eurex Clearing ("EUREX") regarding the methodologies developed by other CCPs to mitigate the credit risk that arises if the exposure of a clearing member to the CCP is greater than its capital level. The comparative table including comparisons with CDCC's current & proposed methodologies follows (CDCC's proposed change is in the calibration only):

² CME qualitative disclosure Nov 2019; ICE qualitative disclosure April 2021; Eurex qualitative disclosure April 2020; LCH qualitative disclosure 2020; ASX qualitative disclosure Dec 2019

CCP	Capital measure	Margin Gross/Net	Calibration
CDCC (Current)	Net Allowable Assets (<i>dealers</i>) Common Equity Tier 1 (<i>banks</i>)	Net basis	Capital to margin ratio: 1:1 (or 100%)
CDCC (Proposed)	Net Allowable Assets (<i>dealers</i>) Common Equity Tier 1 (<i>banks</i>)	Net basis	Capital to margin ratio: 1:2 (or 50%)
CME	Adjusted Net Capital (<i>dealers</i>) Common Equity Tier 1 (<i>banks</i>)	Net basis	8% of Futures margin requirement
ICE	Adjusted Net Capital (<i>dealers</i>) Common Equity Tier 1 (<i>banks</i>)	Net basis	Capital to margin ratio: 1:2 (house) 1:3 (client) 1:3 (total margin)
ASX	Net Tangible Assets (<i>dealers</i>) Common Equity Tier 1 (<i>banks</i>)	Net basis	Capital to margin ratio: 1:3
EUREX	Adjusted Net Capital (<i>dealers</i>) Common Equity Tier 1 (<i>banks</i>)	Gross basis (reference to "Total IM")	Capital to margin ratio: 1:5

The Corporation uses the Net Allowable Assets to evaluate the capital level of dealers, a standard measure of capital representing assets that are readily convertible into cash or equivalent in a short period of time, and similar to the Adjusted Net Capital measure used by other major CCPs. In addition, most of the CCPs refer to the initial margin on a net basis in order to quantify the exposure of the Clearing Member in excess of its capital level.

With regards to the calibration, most CCPs use the capital to margin ratio methodology, with calibrations ranging from 20% (i.e. capital to margin ratio of 1:5) to 50% (i.e. capital to margin ratio of 1:2). Only CME calculates a systematic charge using a fixed percentage amount of the Clearing Member's Futures margin. With the proposed new calibration of 50%, the Corporation realigns with the methodology used by other major CCPs while remaining prudent.

IV. IMPACTS ON MARKET

As part of the phase 1 of the GCM project, the CDCC presented in the Notice to Members the expected impact of introducing the GCM Regime on the level of the Base Initial Margin and the new Additional Margins, directly affected by the calculation of margins on a gross basis (based on the GCM Declaration File positions). As part of the 2nd phase of the project, the Corporation is now ready to present the impacts to be expected on the level of credit and liquidity resources, which are indirectly affected by the new GCM model.

CDCC has evaluated the impact on the size of the CF and the size of the Supplemental Liquidity Fund (“SLF”) over the past two years. Note that the methodology used for the impact on liquidity resources corresponds to the new methodology that was proposed in the detailed analysis published on August 20th (Notice to Members 2021-130), which should be implemented before the GCM project.

- Over the past two years, the CF would have increased by an average of 10%, with a range stabilizing between 5% and 15% (estimated impact on September 2021 is approximately 15%), and a maximum reached above 20% for the after-Covid period when the level of the Base Initial Margin was exceptionally high. As the allocation methodology remains unchanged, the estimated impact for the contribution of each Clearing Member to the CF is identical.
- As for the impact on the SLF, the calibration is based on Uncovered Residual Liquidity risk that are mechanically affected by the level of the CF. Consequently, in the infrequent times when an Uncovered Residual Liquidity risk was observed, the size of the SLF would have been reduced by the same dollar amount that the CF was augmented (inverse relationship). Note that, over the past two years, the Corporation would have required Clearing Members to contribute to the SLF only 10% of the time, while CF contributions would have been required at all times.

With respect to the migration strategy, CDCC will make sure that the size of the CF and SLF is appropriately adjusted prior to go live in order to ensure the compliance of the Corporation with the Cover 1 regulatory standard. To do so, the impact will be evaluated once again at the approach of the implementation date and the CF and SLF will be resized at CDCC’s discretion to ensure it adequately maintains both credit and liquidity Cover 1 standards.

Note that the expected impact for the proposed change of methodology of the Additional Capital Margin Risk is straightforward as it is simply a change in the calibration of the capital to margin ratio. As such, the impact at the CDCC level as well as the Clearing Member level will be an exact 50% decrease.

V. IMPACTS ON TECHNOLOGICAL SYSTEMS

The implementation of the GCM model has various material impacts on CDCC’s system, as outlined in the detailed analysis published under the Notice to Members. The incremental impacts generated by this additional analysis are commingled with the global delivery of the GCM project.

With respect to the change of calibration for the Additional Capital Margin Risk, a configurable parameter will be added in the Clearing System in order to enable the calibration of the capital to margin ratio different than 1:1 (i.e. different than 100%). This incremental impact is expected to be small on the technology.

With respect to the migration strategy of the CF and SLF, the CDCC will seamlessly be in the

capacity to integrate the impact (if any) on the size of the calibration of these funds prior to go-live.

VI. IMPACTS ON TRADING FUNCTIONS

No technological changes will be required for the trading functions, as already outlined under the Notice to Members.

VII. PUBLIC INTEREST

CDCC is of the view that the proposed amendments are not contrary to the public interest. In fact, the public and Clearing Members are generally requesting clear rules that are consistent with the best practices of other clearinghouses and are PFMI compliant.

VIII. 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 Regulatory Oversight Agreement.

The GCM model is a multi-year project scheduled for a single implementation expected in the second quarter of 2022.

IX. ATTACHED DOCUMENTS

Appendix A: Proposed additional amendments to the Rules and Manuals.

APPENDIX A: PROPOSED AMENDMENTS TO THE RULES AND MANUALS

BLACKLINE VERSION



CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

, 2021



For clarity, additional proposed changes are shown in this document in **red** while previously proposed changes are in **blue**.

Please refer to Notice to Members 2021-102 for all the previous proposed changes to the Rules and Manuals pertaining to the GCM initiative.

PART A – GENERAL

RULE A-1 DEFINITIONS

Section A-101 SCOPE OF APPLICATION

Unless the context otherwise requires or unless different meanings are specifically defined, for all purposes of these Rules the capitalized terms used herein shall have the meanings given them in Section A-102.

Section A-102 DEFINITIONS

[...]

“Receiving Clearing Member”- means a Clearing Member that:

- (i) was named by a client (as provided for in the Default Manual) to receive its Open Positions and the Porting Base Initial Margin Collateral in case its the client’s current Clearing Member becomes a suspended Non-Conforming Member in accordance with Subsection A-401(3)(b);
- (ii) accepts taking on a client from a suspended Non-Conforming Member and be immediately upon providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Member:
 - a) deemed as owner of the ported portfolio, and has provided CDCC with an irrevocable acceptance of the client and corresponding ported Risk Account;
 - b) becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting the corresponding portfolio, including meeting any Margin Requirements and/or settlements associated with the ported portfolio. (including the client legal authority).
- (iii) and once CDCC confirms proceeding with the transfer by way of Porting of a client, will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

RULE A-4 ENFORCEMENT

Section A-401 ACTION AGAINST A NON-CONFORMING OR SUSPENDED MEMBER

- (3) Upon the suspension of the Clearing Member and in addition to a measure made available to the Corporation under Subsection A-401(2) or other provisions under the Rules, the Corporation may take any one of the actions prescribed by the Rules in respect of such Clearing Member including, but not limited to:
- (a) applying the Margin Deposit (including, without limitation, Margin and Clearing Fund) of the suspended Clearing Member against the obligations of such Member to the Corporation, subject to Subsection A-402(3) and, for such purpose, selling, transferring, using or otherwise dealing or disposing of, or terminating under an Account Control Agreement authorizations to deal with, any property deposited as Margin Deposit at any time, without prior notice to the Clearing Member;
 - (b) transferring by way of Porting (i) individual client Open Positions (at the Risk Account level) and (ii) the Porting Base Initial Margin Collateral in the respective GCM Regime Margin Accounts and GCM Margin Deposit Accounts to a Receiving Clearing Member. To effectively protect the individual clients of a suspended **Non-Conforming** Clearing Member, the Corporation will use all reasonable efforts to primarily take the action contemplated in Subsection A-401(3)(b) if it deems it is appropriate in the circumstances. In addition, each Clearing Member shall be required to inform its clients of the applicable requirements under Subsection A-401 (3)(b) in accordance with the Corporation's procedures (including informing the client to name a Receiving Clearing Member). The application of this requirement and of Subsection 205 (f) will be monitored by the Corporation regularly;
 - (c) ~~transferring~~, terminating, closing out or liquidating any or all of the Clearing Member Transactions or Open Positions, and upon such close out, converting all amounts into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation.



BLACKLINE VERSION

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

OPERATIONS MANUAL

2021



For clarity, additional proposed changes are shown in this document in **red** while previously proposed changes are in **blue**.

Please refer to Notice to Members 2021-102 for all the previous proposed changes to the Rules and Manuals pertaining to the GCM initiative.



[...]

Section: 2 - 1

TIME FRAMES

ON-LINE ACCESS

Each Clearing Member must be connected to the CDCC Clearing Application using its PC terminals to perform a variety of functions. (Clearing Members must supply their own PC terminals and Internet connection, at their own cost).

All instructions (corrections, Open Position changes, Position Transfers, Deposits, withdrawals, and submission of Exercise Notices and Tender Notices) must be entered on-line.

The CDCC Clearing Application allows Clearing Members to view their current information throughout the day electronically (except during scheduled maintenance or unforeseen outages). In addition, Clearing Members can download their reports after 7:30 p.m. every day (except on expiry days - see Time Frame sections) using the SFTP Download function.

Should a Clearing Member not have electronic access (due to technical issues) to the CDCC Clearing Application during Office Hours, CDCC can perform instructions on behalf of the Clearing Member. This requires a phone call from the Clearing Member to CDCC, along with the appropriate form faxed or scanned and e-mailed to CDCC. Such form must be signed by an Authorized Representative of the Clearing Member.

With respect to operational activity related to Options with an Expiration Date on Expiry Friday, CDCC staff members are on-site from 7:00 a.m. to fifteen (15) minutes after delivery of the Options Exercised and Assigned Report (MT02).



[...]

Section: 2 - 2

TIME FRAMES

Activity	Time Frames	Activity Type
<u>Clearing Member's (excluding LCMs) Overnight Margin Calculation & Notification</u>	<u>Every hour from 10:00 p.m. (t-1) to 5:00 a.m. (t)</u>	<u>System Activity/Notification</u>



[...]

Section: 3 - 5

CDCC-REPORTS

REPORT DETAILS

Report Code	Report Name	Report Description
<i>Daily:</i>		
<u>MP55</u>	<u>GCM Declaration Report</u>	<u>Lists the Clearing Member's Clients Futures and Options on Futures Open Positions declared via the GCM Declaration File with the associated margin figures of each individual client account within the Client Account Omnibus structure.</u>

BLACKLINE VERSION



RISK MANUAL

, 2021

For clarity, additional proposed changes are shown in this document in **red** while previously proposed changes are in **blue**.

Please refer to Notice to Members 2021-102 for all the previous proposed changes to the Rules and Manuals pertaining to the GCM initiative.

Glossary

[...]

[CDCC Book Positions: positions by account recorded in CDCS. The level corresponds to the Risk Account level for all the types of accounts, with the exception of the GCM eligible positions under the Client Account Omnibus for which an additional account segregation will be provided by the GCM Declaration File.](#)

[...]

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 2 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.

[...]

ADDITIONAL CAPITAL MARGIN RISK

This Additional Margin intends to measure the credit exposure of all Clearing Members (excluding Limited Clearing Members) that arises if the exposure of a Clearing Member is superior to its capital amount.

The Corporation compares the Clearing Member's capital amount to the Base Initial Margin requirement based on the CDCC Book Positions. In the event that the Base Initial Margin of the Clearing Member exceeds the capital amount, Additional Margin in the amount of the a minimum of 50% of the excess will be collected from the Clearing Member. The proportion value is updated by CDCC from time to time.

The capital level is derived from regulatory reports received on a regular basis. The Corporation uses the net allowable assets, the net Tier 1 capital or any other comparative measure to assess the capital level of each Clearing Member

[...]

ADDITIONAL MARGIN FOR INTRA-DAY GCM RISK

The Additional Margin for Intra-Day GCM Risk is requested for uncovered Intra-day exposure for eligible positions under the GCM Regime in a Client Omnibus Account.

The uncovered Intra-day exposure is calculated by taking the difference between the Intra-day Base Initial Margin requirement and the previous Business Day Base Initial Margin requirement based on the CDCC Book Positions and on a net basis, and including the Variation Margin for Options. When calculating the value of Additional Margin for Intra-day GCM Risk, the value cannot be lower than zero.

[...]

1.2 CLEARING FUND REQUIREMENT

Rule A-6 governs the rights and obligations of the Corporation and the Clearing Members, excluding Limited Clearing Members (LCMs), with respect to the Clearing Fund.

The Clearing Fund is a reserve fund put in place by the Corporation to absorb the deficit that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources do not cover its market exposure.

This fund is structured to mitigate the largest Uncovered Residual Risk under extreme but plausible market conditions of all Clearing Members (excluding Limited Clearing Members) and of their Affiliate(s).

On a monthly basis, the Clearing Fund is reviewed and updated according to the following methodology which considers two specific elements:

- The size of the Clearing Fund is based on the largest Uncovered Residual Risk of all Clearing Members and of their Affiliate(s) (excluding Limited Clearing Members) over the last sixty (60) Business Days. The size is then increased by 15%.

- Each Clearing Member's Clearing Fund Requirement amount is equal to the weight of its respective Base Initial Margin requirement based on the CDCC Book Positions over the last sixty (60) Business Days multiplied by the size of the Clearing Fund. A Clearing Member's contribution is subject to a minimum floor (Base Deposit), which varies according to the Clearing Member's type of activity.

On an intra-month basis, the Corporation monitors and controls the size of the Clearing Fund and may adjust it upward between monthly re-evaluations. If the largest Uncovered Residual Risk exceeds 90% of the size of the Clearing Fund but is inferior to 100% of the size of the Clearing Fund, the size of the Clearing Fund is increased by 15% of the current size. If the largest Uncovered Residual Risk exceeds 100%, the size of the Clearing Fund is updated based on the methodology described above.

BLACKLINE VERSION



DEFAULT MANUAL

, 2021



For clarity, additional proposed changes are shown in this document in **red** while previously proposed changes are in **blue**.

Please refer to Notice to Members 2021-102 for all the previous proposed changes to the Rules and Manuals pertaining to the GCM initiative.

[\[...\]](#)

Section 3: Risk Mitigation Tools

3.1 TRANSFER BY WAY OF PORTING OF INDIVIDUAL CLIENT RISK ACCOUNTS

The Corporation will attempt, if it deems appropriate under the circumstances and on a best effort basis, to transfer by way of Porting in whole or in part, Client Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts, in whole or in part, to the books of other Clearing Members. Note that, as specified in Sub-section 1.1 (Objectives) of this Manual, the efficient and comprehensive transfer by way of Porting of individual Client Risk Accounts is an identified objective of the Default Management Process. For the avoidance of doubt, this includes transferring any Open Positions maintained in such account, or any account carried by such Clearing Member and any associated collateral (referred to herein as Porting Base Initial Margin Collateral) Margin Deposits held by the Corporation in respect of such account, to another Clearing Member as contemplated in Section A-401(3)(b) of the Rules.

3.1.1 PROCEDURE RELATED TO A TRANSFER BY WAY OF PORTING

The procedure related to a transfer by way of Porting will start for CDCC immediately after the suspension of the Clearing Member, and will continue until the end of the Default Management Period. Upon receipt of an updated GCM Declaration File and other client identification confirmation from the suspended Non-Conforming Clearing Member, CDCC will perform a Base Initial Margin calculation (thereafter the “Suspension Point Margin Calculation”). The updated GCM Declaration File is required for CDCC to determine the Open Positions and the Porting Base Initial Margin Collateral for each individual client Risk Account. As outputs from the Suspended Point Margin Calculation, CDCC will produce reports containing porting information data, which it will make available to each client via its suspended Non-Conforming Clearing Member or by any other acceptable manner to CDCC.

Clients wishing to be transferred by way of Porting are required to provide transfer instructions to CDCC (via its Receiving Clearing Member or by any other acceptable manner to CDCC) no later than noon on the next Business Day following the initiation of the transfer process. Thus, at the beginning of this process, a Base Initial Margin calculation will be performed (thereafter the “Suspension Point Margin Calculation”) using the updated GCM Declaration File to determine the Open Positions and the Porting Base Initial Margin Collateral for each individual client Risk Account.

CDCC will use its best efforts, if it deems appropriate under the circumstances, following the request of a client, to transfer, the client's Open Positions and the Porting Base Initial Margin Collateral held by the Corporation in respect of such individual client Risk Account. The aforementioned is subject to (1) the consent of the Receiving Clearing Member and CDCC and (2) the completion of any additional documentation required to proceed with a transfer by way of Porting. ~~(3) the available Porting Base Initial Margin Collateral remains above CDCC Porting Coverage Threshold, as defined in Section A-102 of the Rules, for each individual client Risk Account.~~

3.1.2 POST TRANSFER BY WAY OF PORTING CONFIRMATION PROCEDURE PROCEDURE RELATED TO POST-CONFIRMATION OF A TRANSFER BY WAY OF PORTING

~~Immediately upon the confirmation from a Receiving Clearing Member accepting taking on— providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Clearing Member the Receiving Clearing Member, will become fully liable for the identity of the client requesting a transfer by way of Porting and the corresponding portfolio, including meeting any Margin Requirements and/or settlements associated with the transferred portfolio during and after the transfer process by way of Porting.~~ a Receiving Clearing Member provides its irrevocable acceptance of receiving the client Risk Account. The Receiving Clearing Member also becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting. Once CDCC confirms proceeding with the transfer by way of Porting of a client to such Receiving Clearing Member, the latter will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

The Margin Requirement impact of the incremental positions contained in the ported Risk Account is considered immediately, but the amount of collateral agreed to be ported by the Corporation to the Receiving Clearing Member in relation to the ported Risk Account portfolio will be considered as collateral covering this Margin Requirement. Any failure by the Receiving Clearing Member to accept a transfer by way of Porting of positions or meet any obligations associated with the ported Risk Account portfolio 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. A failure by such Clearing Member to pay the costs and damages will automatically result in the determination by the Corporation of a Non-Conforming status. The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of a transfer by way of Porting.

APPENDIX A: PROPOSED AMENDMENTS TO THE RULES AND MANUALS

CLEAN VERSION



CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

, 2021

PART A – GENERAL

RULE A-1 DEFINITIONS

Section A-101 SCOPE OF APPLICATION

Unless the context otherwise requires or unless different meanings are specifically defined, for all purposes of these Rules the capitalized terms used herein shall have the meanings given them in Section A-102.

Section A-102 DEFINITIONS

[...]

“Receiving Clearing Member”- means a Clearing Member that:

- (i) was named by a client (as provided for in the Default Manual) to receive its Open Positions and the Porting Base Initial Margin Collateral in case its current Clearing Member becomes a suspended Non-Conforming Member in accordance with Subsection A-401(3)(b);
- (ii) immediately upon providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Member:
 - a) has provided CDCC with an irrevocable acceptance of the client and corresponding ported Risk Account;
 - b) becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting (including the client legal authority).
- (iii) and once CDCC confirms proceeding with the transfer by way of Porting of a client, will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

[...]

RULE A-4 ENFORCEMENT

Section A-401 ACTION AGAINST A NON-CONFORMING OR SUSPENDED MEMBER

- (3) Upon the suspension of the Clearing Member and in addition to a measure made available to the Corporation under Subsection A-401(2) or other provisions under the Rules, the Corporation may

take any one of the actions prescribed by the Rules in respect of such Clearing Member including, but not limited to:

- (a) applying the Margin Deposit (including, without limitation, Margin and Clearing Fund) of the suspended Clearing Member against the obligations of such Member to the Corporation, subject to Subsection A-402(3) and, for such purpose, selling, transferring, using or otherwise dealing or disposing of, or terminating under an Account Control Agreement authorizations to deal with, any property deposited as Margin Deposit at any time, without prior notice to the Clearing Member;
- (b) transferring by way of Porting (i) individual client Open Positions (at the Risk Account level) and (ii) the Porting Base Initial Margin Collateral in the respective GCM Regime Margin Accounts and GCM Margin Deposit Accounts to a Receiving Clearing Member. To effectively protect the individual clients of a suspended Non-Conforming Clearing Member, the Corporation will use all reasonable efforts to primarily take the action contemplated in Subsection A-401(3)(b) if it deems it is appropriate in the circumstances. In addition, each Clearing Member shall be required to inform its clients of the applicable requirements under Subsection A-401 (3)(b) in accordance with the Corporation's procedures (including informing the client to name a Receiving Clearing Member). The application of this requirement and of Subsection 205 (f) will be monitored by the Corporation regularly;
- (c) terminating, closing out or liquidating any or all of the Clearing Member Transactions or Open Positions, and upon such close out, converting all amounts into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation.



CLEAN VERSION

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

OPERATIONS MANUAL

2021



[...]

Section: 2 - 1

TIME FRAMES

ON-LINE ACCESS

Each Clearing Member must be connected to the CDCC Clearing Application using its PC terminals to perform a variety of functions. (Clearing Members must supply their own PC terminals and Internet connection, at their own cost).

All instructions (corrections, Open Position changes, Position Transfers, Deposits, withdrawals, and submission of Exercise Notices and Tender Notices) must be entered on-line.

The CDCC Clearing Application allows Clearing Members to view their current information throughout the day electronically (except during scheduled maintenance or unforeseen outages). In addition, Clearing Members can download their reports after 9:30 p.m. every day (except on expiry days - see Time Frame sections) using the SFTP Download function.

Should a Clearing Member not have electronic access (due to technical issues) to the CDCC Clearing Application during Office Hours, CDCC can perform instructions on behalf of the Clearing Member. This requires a phone call from the Clearing Member to CDCC, along with the appropriate form faxed or scanned and e-mailed to CDCC. Such form must be signed by an Authorized Representative of the Clearing Member.

With respect to operational activity related to Options with an Expiration Date on Expiry Friday, CDCC staff members are on-site from 7:00 a.m. to fifteen (15) minutes after delivery of the Options Exercised and Assigned Report (MT02).



[...]

Section: 2 - 2

TIME FRAMES

Activity	Time Frames	Activity Type
Clearing Member's (excluding LCMs) Overnight Margin Calculation & Notification	Every hour from 10:00 p.m. (t-1) to 5:00 a.m. (t)	System Activity/Notification



[...]

Section: 3 - 4

CDCC-REPORTS

REPORT DETAILS

Report Code	Report Name	Report Description
<i>Daily:</i>		
MP55	GCM Declaration Report	Lists the Clearing Member's Clients Futures and Options on Futures Open Positions declared via the GCM Declaration File with the associated margin figures of each individual client account within the Client Account Omnibus structure.

CLEAN VERSION



RISK MANUAL

, 2021

Glossary

[...]

CDCC Book Positions: positions by account recorded in CDCS. The level corresponds to the Risk Account level for all the types of accounts, with the exception of the GCM eligible positions under the Client Account Omnibus for which an additional account segregation will be provided by the GCM Declaration File.

[...]

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 2 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.

[...]

ADDITIONAL CAPITAL MARGIN RISK

This Additional Margin intends to measure the credit exposure of all Clearing Members (excluding Limited Clearing Members) that arises if the exposure of a Clearing Member is superior to its capital amount.

The Corporation compares the Clearing Member's capital amount to the Base Initial Margin requirement based on the CDCC Book Positions. In the event that the Base Initial Margin of the Clearing Member exceeds the capital amount, Additional Margin in the amount of a minimum of 50% of the excess will be collected from the Clearing Member. The proportion value is updated by CDCC from time to time.

The capital level is derived from regulatory reports received on a regular basis. The Corporation uses the net allowable assets, the net Tier 1 capital or any other comparative measure to assess the capital level of each Clearing Member

[...]

ADDITIONAL MARGIN FOR INTRA-DAY GCM RISK

The Additional Margin for Intra-Day GCM Risk is requested for uncovered Intra-day exposure for eligible positions under the GCM Regime in a Client Omnibus Account.

The uncovered Intra-day exposure is calculated by taking the difference between the Intra-day Base Initial Margin requirement and the previous Business Day Base Initial Margin requirement based on the CDCC Book Positions and on a net basis, and including the Variation Margin for Options. When calculating the value of Additional Margin for Intra-day GCM Risk, the value cannot be lower than zero.

[...]

1.2 CLEARING FUND REQUIREMENT

Rule A-6 governs the rights and obligations of the Corporation and the Clearing Members, excluding Limited Clearing Members (LCMs), with respect to the Clearing Fund.

The Clearing Fund is a reserve fund put in place by the Corporation to absorb the deficit that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources do not cover its market exposure.

This fund is structured to mitigate the largest Uncovered Residual Risk under extreme but plausible market conditions of all Clearing Members (excluding Limited Clearing Members) and of their Affiliate(s).

On a monthly basis, the Clearing Fund is reviewed and updated according to the following methodology which considers two specific elements:

- The size of the Clearing Fund is based on the largest Uncovered Residual Risk of all Clearing Members and of their Affiliate(s) (excluding Limited Clearing Members) over the last sixty (60) Business Days. The size is then increased by 15%.

- Each Clearing Member's Clearing Fund Requirement amount is equal to the weight of its respective Base Initial Margin requirement based on the CDCC Book Positions over the last sixty (60) Business Days multiplied by the size of the Clearing Fund. A Clearing Member's contribution is subject to a minimum floor (Base Deposit), which varies according to the Clearing Member's type of activity.

On an intra-month basis, the Corporation monitors and controls the size of the Clearing Fund and may adjust it upward between monthly re-evaluations. If the largest Uncovered Residual Risk exceeds 90% of the size of the Clearing Fund but is inferior to 100% of the size of the Clearing Fund, the size of the Clearing Fund is increased by 15% of the current size. If the largest Uncovered Residual Risk exceeds 100%, the size of the Clearing Fund is updated based on the methodology described above.

CLEAN VERSION



DEFAULT MANUAL

, 2021

[...]

Section 3: Risk Mitigation Tools

3.1 TRANSFER BY WAY OF PORTING OF INDIVIDUAL CLIENT RISK ACCOUNTS

The Corporation will attempt, if it deems appropriate under the circumstances and on a best effort basis, to transfer by way of Porting, client Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts, to the books of other Clearing Members. Note that, as specified in Sub-section 1.1 (Objectives) of this Manual, the efficient and comprehensive transfer by way of Porting of individual client Risk Accounts is an identified objective of the Default Management Process. For the avoidance of doubt, this includes transferring any Open Positions maintained in such account, or any account carried by such Clearing Member and any associated collateral (referred to herein as Porting Base Initial Margin Collateral) held by the Corporation in respect of such account, to another Clearing Member as contemplated in Section A-401(3)(b) of the Rules.

3.1.1 PROCEDURE RELATED TO A TRANSFER BY WAY OF PORTING

The procedure related to a transfer by way of Porting will start for CDCC immediately after the suspension of the Clearing Member, and will continue until the end of the Default Management Period. Upon receipt of an updated GCM Declaration File and other client identification confirmation from the suspended Non-Conforming Clearing Member, CDCC will perform a Base Initial Margin calculation (hereafter the “**Suspension Point Margin Calculation**”). The updated GCM Declaration File is required for CDCC to determine the Open Positions and the Porting Base Initial Margin Collateral for each individual client Risk Account. As outputs from the Suspended Point Margin Calculation, CDCC will produce reports containing porting information data, which it will make available to each client via its suspended Non-Conforming Clearing Member or by any other acceptable manner to CDCC.

Clients wishing to be transferred by way of Porting are required to provide transfer instructions to CDCC (via its Receiving Clearing Member or by any other acceptable manner to CDCC) no later than noon on the next Business Day following the initiation of the transfer process.

CDCC will use its best efforts, if it deems appropriate under the circumstances, following the request of a client, to transfer, the client’s Open Positions and the Porting Base Initial Margin Collateral held by the Corporation in respect of such individual client Risk Account.

The aforementioned is subject to (1) the consent of the Receiving Clearing Member and CDCC and (2) the completion of any additional documentation required to proceed with a transfer by way of Porting.

3.1.2 PROCEDURE RELATED TO POST-CONFIRMATION OF A TRANSFER BY WAY OF PORTING

Immediately upon providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Clearing Member, a Receiving Clearing Member provides its irrevocable acceptance of receiving the client Risk Account. The Receiving Clearing Member also becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting. Once CDCC confirms proceeding with the transfer by way of Porting of a client to such Receiving Clearing Member, the latter will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

The Margin Requirement impact of the incremental positions contained in the ported Risk Account is considered immediately, but the amount of collateral agreed to be ported by the Corporation to the Receiving Clearing Member in relation to the ported Risk Account will be considered as collateral covering this Margin Requirement. Any failure by the Receiving Clearing Member to accept a transfer by way of Porting of positions or meet any obligations associated with the ported Risk Account 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. A failure by such Clearing Member to pay the costs and damages will automatically result in the determination by the Corporation of a Non-Conforming status. The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of a transfer by way of Porting.