



NOTICE TO MEMBERS

No. 2014 – 198

October 20, 2014

REQUEST FOR COMMENTS

AMENDMENT TO THE RULES OF CANADIAN DERIVATIVES CLEARING CORPORATION TO MAKE MANDATORY THE ESTABLISHMENT OF A UNITED STATES OF AMERICA DOLLAR (USD) BANK ACCOUNT FOR EVERY CLEARING MEMBER THAT CLEARS OPTIONS AND/OR FUTURES

Summary

On July 30, 2014, the Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Rules of CDCC. The purpose of the proposed amendment is to make mandatory the establishment of a United States of America dollar (USD) bank account for every Clearing Member that clears Options, Futures or Options and Futures.

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 is 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 Rules and Operations Manual of CDCC. Amendments are submitted to the AMF in accordance with the self-certification process and the Ontario Securities Commission in accordance with the process provided in its Recognition Order.

Canadian Derivatives Clearing Corporation

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800 Victoria Square
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Comments on the proposed amendments must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

Mrs. Pauline Ascoli
Assistant Secretary
Canadian Derivatives Clearing Corporation
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Québec H4Z 1A9
E-mail: legal@m-x.ca

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

Mrs. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse, P.O. Box 246
800 Victoria Square, 22nd Floor
Montréal, Québec H4Z 1G3
E-mail: consultation-encours@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 CDCC's Corporate Operations.

Glenn Goucher
President and Chief Clearing Officer

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AMENDMENTS TO RULE A-217 OF THE CANADIAN DERIVATIVES CLEARING CORPORATION

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I. SUMMARY

CDCC proposes to amend Rule A-217 regarding Settlement Accounts to make mandatory the establishment of a United States of America dollar (USD) bank account for every Clearing Member that clears Options, Futures or Options and Futures.

II. ANALYSIS

a. Background

Currently, CDCC is monitoring Clearing Member's bank accounts on a quarterly basis. During this process, if CDCC finds that a USD account was closed, it will issue a notice to the Clearing Member requesting the reopening or reactivation of the closed USD account.

b. Description and Analysis of Market Impacts

CDCC's current Rule A-217 stipulates that Clearing Members are to have settlement accounts in the currency in which it trades.

All Clearing Members are required to maintain a Canadian dollar Settlement Account as all margining and profit and loss calculations are currently in Canadian dollars.

CDCC's Options business requires that a Clearing Member maintains a USD Settlement Account for those times that a Corporate Action requires that part of the adjusted deliverable is in USD. CDCC's business rationale is that it should not use an exchange rate to deliver in Canadian dollars, hence generating an arbitrage opportunity.

CDCC has been enforcing the need for a USD account, because it believes that this was the spirit of the existing rule. CDCC would like to clarify the Rule to state that all Clearing Members must have a Canadian dollar Settlement Account and all Clearing Members who clear Options, Futures or Options and Futures must have a USD Settlement Account. Clearing Members clearing exclusively Fixed Income would not have this requirement.

This obligation would flow into CDCC's Participation Requirements (Rule change currently in the regulatory process) whereby a Clearing Member could be considered Non-Conforming when the USD bank account is closed.

Finally, the Montreal Exchange and CDCC are in the regulatory process to launch a new product which will institute a need for USD settlements for a Futures product.

c. Benchmarking

No benchmarking was done for this amendment as this relates to a proactive approach concerning an existing requirement in order for the concerned Clearing Members to be properly set-up.

d. Proposed Amendments

CDCC Rules:

Section A-217 Corporation as Agent Re Settlement Accounts

Each Clearing Member will establish a separate Canadian dollar bank account, and if a Clearing Member clears Options, Futures, or Options and Futures, a separate United States of America dollar Bank account, for settling Transactions ~~in each currency in which the Clearing Member trades in this currency~~-(the “Settlement Accounts”). Each Clearing Member hereby appoints the Corporation to act as its agent, and the Corporation hereby accepts such appointment upon the terms and conditions hereof, solely for the purpose of effecting, on behalf of such Clearing Member, electronic payment instructions from the Settlement Accounts for the purpose of paying all amounts owing by the Clearing Member to CDCC. Nothing herein shall abrogate a Clearing Member’s obligations hereunder to maintain sufficient funds in the Settlement Accounts for the purposes of ensuring complete and timely settlement of the Clearing Member’s obligations hereunder.

III. DRAFTING PROCESS

The drafting process was driven by the need to clarify the spirit of the rule and avoid allocating time and resources of CDCC to quarterly monitor the status of the USD Settlement Account.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

There will be no impacts on technological systems.

V. OBJECTIVES OF THE PROPOSED MODIFICATIONS

The objectives of the proposed change are: 1) to clarify the spirit of the rule and 2) allow every Clearing Member who clears Options and/or Futures to be adequately set-up in the event of a Corporate Action.

VI. PUBLIC INTEREST

In CDCC’s opinion, the amendment to the CDCC Rules is not contrary to the public interest.

VII. MARKET IMPACTS

The amendment clarifies the Rule and creates more certainty on the side of Clearing Members about what accounts need to be maintained at all times.

VIII. PROCESS

The proposed amendment is submitted for approval by the CDCC Board. Once the approval has been obtained, the proposed amendment, including this analysis, will be transmitted to the *Autorité des marchés financiers* in accordance with the self-certification process and the Ontario Securities Commission in accordance with the “Rule Change Requiring Approval in Ontario” process. The proposed amendment and analysis will also be submitted for approval to the Bank of Canada in accordance with the Oversight Regulatory Agreement.

IX. EFFECTIVE DATE

CDCC would like the amendment to be effective by the end of the fourth quarter 2014.

X. ATTACHED DOCUMENTS

- Appendix 1: Amended Rule A-217.

APPENDIX 1



CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

VERSION OF ~~JUNE 9~~, 2014

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Section A-217 Corporation as Agent Re Settlement Accounts

Each Clearing Member will establish a separate Canadian dollar bank account, and if a Clearing Member clears Options, Futures, or Options and Futures, a separate United States of America dollar Bank account, for settling Transactions ~~in each currency in which the Clearing Member trades in this currency~~-(the “Settlement Accounts”). Each Clearing Member hereby appoints the Corporation to act as its agent, and the Corporation hereby accepts such appointment upon the terms and conditions hereof, solely for the purpose of effecting, on behalf of such Clearing Member, electronic payment instructions from the Settlement Accounts for the purpose of paying all amounts owing by the Clearing Member to CDCC. Nothing herein shall abrogate a Clearing Member’s obligations hereunder to maintain sufficient funds in the Settlement Accounts for the purposes of ensuring complete and timely settlement of the Clearing Member’s obligations hereunder.