

Customized Derivatives Clearing



Converge® provides central counterparty clearing services for transactions that originate off-exchange. It allows market participants to submit their customized derivatives transactions for clearing at the Canadian Derivatives Clearing Corporation (CDCC). **Converge** is currently available to clear customized equity options.

HIGH LEVEL OF CUSTOMIZATION

> Eligible Underlyings

Over 500 names:

- Single-name equities listed on the Toronto Stock Exchange (TSX) and TSX Venture Exchange.
- Exchange-traded funds (ETFs) listed on the TSX.

> Exercise Style

European or American

> Settlement

Cash or physical

> Maturity

Up to 5 years

> Strike Price

No constraints (0.001\$ increments)

BENEFITS OF USING CONVERGE FOR CLEARING CUSTOMIZED TRANSACTIONS

- > **International Swaps and Derivatives Association (ISDA) agreement not required** as CDCC provides same legal framework as exchange-traded options traded on the Montreal Exchange (MX).
- > **Multilateral Netting (Customized and Exchange-Traded)**
 - Positions
 - Collateral requirements
 - Daily settlement
 - Final settlement
- > **Centralized Business Processes**
- > **Anonymity**
- > **Scalability**
- > **Optimal usage of capital and collateral**
- > **Risk Mutualization**

OPTION PRICING

For margin calculation purposes, CDCC computes a daily theoretical price for each customized equity option cleared through **Converge**.

OPTION PRICING MODELS

The option pricing model to use depends on the exercise style of the option:

- > **American-style**
 - Barone-Adesi & Whaley
- > **European-style**
 - Black-Scholes

VOLATILITY

The volatility estimate, used as an input when computing the customized option's price, depends on whether or not the underlying has a listed option at the Montréal Exchange (MX):

- > **Underlying has a listed option at MX**
 - Implied volatility derived from listed option prices
- > **Underlying does not have a listed option at MX**
 - Historical volatility of underlying (annual)

MINIMUM SIZE

| Instruments | Minimum Size |
|----------------------------|---------------|
| Single-Name Equity Options | 100 contracts |
| ETF Options | 100 contracts |

FEE STRUCTURE

| Instruments | Clearing Member Cost (By contract) | Client Cost (By contract) | CAP AT 10,000 CONTRACTS* | |
|--|------------------------------------|---------------------------|--------------------------------------|-----------------------------|
| | | | Maximum Clearing Member Cost (Total) | Maximum Client Cost (Total) |
| All underlyings (Single-Name Equity Options and ETF Options) | \$0.30 | \$0.70 | \$3,000 | \$7,000 |

* Exercise fees are also capped at 10,000 contracts