



## STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors (the “Board”) of the Canadian Derivatives Clearing Corporation (“CDCC”) is committed to ensuring that CDCC’s business is conducted in a fair, transparent and responsible manner which is consistent with the public interest aspect of its business. CDCC is regulated by the *Autorité des Marchés Financiers* (“AMF”), the Ontario Securities Commission and the Bank of Canada. The Canadian Derivatives Clearing Service has been designated as systemically important pursuant to the *Payment Clearing and Settlement Act*. This corporate governance statement is designed to support the Board in discharging its governance responsibilities and to enhance shareholder value.

### Board Responsibilities

The Board is primarily responsible for providing governance and stewardship to CDCC. It must appoint a competent executive management team to run the day-to-day operations of CDCC and oversee and supervise the management of the business of CDCC by that team. The Board is also responsible for overseeing CDCC’s systems of corporate governance and financial reporting and controls to ensure that CDCC reports adequate and fair financial information to its sole shareholder, Montreal Exchange Inc. The Board also oversees the implementation of CDCC’s strategic plan and objectives, while ensuring that CDCC, as a central counterparty, applies rigorous risk management to address the possibility of member default and complies with applicable regulatory requirements. The Board Charter that describes the Board’s specific duties is publicly available on the CDCC website.

The Board carries out its mandate directly and through its Risk and Audit Committee and the Governance Committee and such other committees as it appoints from time to time. The Board has also established a Risk Management Advisory Committee (“RMAC”), which provides advice and makes non-binding recommendations to the Board in respect of issues which are relevant to CDCC’s risk management, including admission standards for clearing membership, surveillance of positions, collection of initial margin and intra-day margin, collection of clearing fund collateral and establishment of default processes to limit adverse impacts. The Board also seeks or obtains advice and recommendations from the Human Resources Committee (the “Human Resources Committee”) established by CDCC’s ultimate parent company, TMX Group Limited (“TMX”).

### Board and Committees Composition

Each director is elected annually by the sole shareholder to hold office for the term of office for which he or she is elected.

CDCC’s governance structure is designed to ensure fair, meaningful and diverse representation. At least one third of directors must be independent in accordance with the independence criteria set forth in the *AMF Recognition Order* governing CDCC.

Quorum at any meeting of the Board is a majority of directors. The Chairperson of the Board is appointed by the Board and presides at all meetings of the Board, and is an *ex officio* member of any committee authorized by the Board. The Chairperson is elected from among the independent directors of the Board.

The directors are paid such remuneration as the Board may, from time to time, determine further to the recommendations of its Governance Committee.



As for representation on the Board committees, the Governance Committee is composed of a minimum of four directors, a majority of whom are independent directors, and the RMAC is composed of one independent director, two industry directors that are not associates, partners, directors, officers or employees of a significant TMX shareholder, and two members that are nominees of TMX.

In addition to the RMAC, two users groups, one for the exchange-traded activity and one for the fixed income activity, also serve as advisory committees where all clearing members are welcome to participate and give their views on issues directly affecting membership.

The Board meets on a quarterly basis, with *ad hoc* meetings when required. The Governance Committee meets at least semi-annually and the RMAC meets at least four times a year. The users groups also meet at least four times a year.

### **Fair Industry Representation**

CDCC's governance structure provides proper balance among the interests of its sole shareholder and the industry participants through their respective representation on the Board and on the Board committees as set forth above. Also, the RMAC and the two users' groups of CDCC are part of the governance scheme, giving all clearing members the opportunity to be informed of all major initiatives and provide their views in respect thereof.

The Governance Committee is responsible for reviewing and making recommendations to the Board respecting, among other things, the organization and responsibilities of such users' groups. CDCC is required to annually provide to its regulators the recommendations made by its users' groups and explain the underlying grounds for the rejection of a recommendation or the partial or amended implementation of a recommendation of these groups.

### **Conflicts of Interest and Codes of Conduct**

A director or officer who is a party to, or who is a director or officer of or has a material interest in any person who is a party to, a material contract or proposed material contract with CDCC is required to disclose the nature and extent of his or her interest at the time and in the manner provided by the *Canadian Business Corporation Act*, as specified in CDCC's By-Laws.

The Board Code of Conduct also contains specific policies and procedures in respect of conflicts of interest. The purpose of the Board Code of Conduct is to foster a climate of honesty, truthfulness and integrity to ensure CDCC upholds ethical standards in all its corporate activities. The Governance Committee is responsible for setting the standards of business conduct contained in the Board Code of Conduct.

The matters that are covered in the Board Code of Conduct are (i) the directors' obligations to act honestly and in good faith with a view to the best interests of CDCC, exercise care, diligence and skill, exercise his/her powers for the purpose they were intended, ensure he or she is not in conflict of interest or otherwise receive personal gain by acting as director, and exercise his/her mandate having regard to the public interest mandate of CDCC; (ii) each director's duty to deal fairly with CDCC's sole shareholder, clearing members, suppliers, competitors and employees; (iii) each director's duty to protect CDCC's confidential information; (iv) each director's disclosure obligations in respect of any breach of confidentiality and in respect of any conflict of interest whether direct or indirect, real or potential, between himself or herself and CDCC, and between CDCC and other entities of TMX; (v) partition measures between MX and CDCC; (vi) waivers; and (vii) violations.



All the employees and consultants of CDCC are required to comply with the Employee Code of Conduct, which contains provisions on conflicts of interest, and specifically covers (i) conflicts related to files, (ii) gifts and entertainment, (iii) interests in other businesses, (iv) outside employment, (v) partition measures between MX and its Regulatory Division, (vi) partition measures between MX and CDCC. Such partition measures essentially consist in having offices of MX and those of CDCC kept totally distinct and separated physically, restricting access to files of CDCC to employees of CDCC, confidentiality obligations being imposed to any employee of CDCC moving to another entity in the TMX group of companies, with such employee's manager meeting with the employee to advise the employee of his or her confidentiality obligations. All employees and consultants of CDCC annually confirm compliance with the Employee Code of Conduct by signing a declaration in respect of such code and by passing a test on its content.

The Governance Committee is also responsible for overseeing policies and procedures for the identification and resolution of conflicts of interest. It is also part of its mandate to confirm that processes are in place to ensure compliance with the Employee Code of Conduct and the Board Code of Conduct.

### **Integrity and Expertise of Directors**

CDCC must take reasonable steps to ensure that each director and officer is a fit and proper person who will perform his or her duties with integrity. All directors complete an annual questionnaire which confirms their derivatives clearing expertise. They are also required to complete an annual peer and self-evaluation survey.

The Governance Committee provides the Board with recommendations relating to corporate governance generally, including the Board size and composition, the candidate selection process and orientation of new members. Among other duties, the Governance Committee reviews and makes recommendations to the Board respecting the long-term plan for the composition of the Board that takes into consideration the current strengths, skills and experience on the Board and the strategic direction of CDCC. It also reviews, approves and reports to the Board on the performance of individual directors, the Board as a whole and Board Committees.

The Board plays a key role in ensuring that market confidence in CDCC, which has been achieved in over 35 years of operation, is maintained. Excellence in the area of corporate governance has been, and continues to be a fundamental premise of CDCC's business operations.

### **Succession Planning**

An annual succession planning exercise is a requirement of TMX governance. Each year, Human Resources facilitate a succession planning exercise which covers senior roles in the TMX organization, including the top two levels of management at CDCC. Succession planning is a critical risk management tool which helps ensure the continuity of talent in the event of an unanticipated departure, as well as to ensure the continuity of talent development over the medium and long term. Once succession plans are developed they are discussed and vetted by the next level of management, culminating in a review by the TMX Executive Committee before being summarized and presented to the TMX Human Resources Committee. These succession plans are kept on file until they are replaced by those of the following year.