

December 2022

**CDCC**

# Gross Client Margin

**Fact Sheet: CDCC Gross  
Client Margin (GCM) Regime**



# Key Terms

<b>CDCC</b>	Canadian Derivatives Clearing Corporation (CDCC) which acts as the central clearing counterparty for exchange-traded derivative products in Canada and for a growing range of customized financial instruments. CDCC's role is to ensure the integrity and stability of the financial markets that it supports.
<b>CDCC CLIENT RISK ACCOUNT</b>	A segregated Client account containing the Client's gross positions, as reported by its Clearing Member. CDCC will use this account to transfer a Client by way of Porting.
<b>CLEARING MEMBER</b>	Canadian Dealer that is a member of CDCC.
<b>CLIENT</b>	Customers of a Clearing Member reported to CDCC.
<b>COLLATERAL</b>	Money, securities or any other property acceptable to CDCC that a Clearing Member will deposit at CDCC for the purpose of fulfilling margin requirements as more fully described in the Risk Manual. The Collateral mentioned above may be different from that deposited by the Client with their Clearing Member.
<b>EVENT OF DEFAULT</b>	A situation where either a Clearing Member fails to meet and fulfill its obligations towards CDCC or the commencement of an insolvency proceeding against that Clearing Member.
<b>GCM CLIENT</b>	Client under the CDCC GCM Regime.
<b>GCM REGIME</b>	Gross Client Margin (GCM) regime, a segregation and portability regime at CDCC intended to protect positions and Collateral of the Clients. The GCM regime is applicable for all Futures and Options on Futures positions, with the exception of hedge positions that fall under the Non-GCM regime.
<b>NON-GCM REGIME</b>	Accounts and positions that are not segregated and not eligible for Porting. The Non-GCM regime is applicable for non-Futures positions and for hedge positions.
<b>HEDGE OPEN POSITIONS</b>	Future position or Option on Futures used as a hedge to reduce market risk and identified via a specific account at CDCC for clearing purposes only.
<b>LIQUIDATION (CLOSE-OUT)</b>	Act of closing-out the positions by CDCC at the prevailing market conditions.
<b>RECEIVING CLEARING MEMBER<sup>1</sup></b>	A CDCC Clearing Member, other than the Suspended Clearing Member, that agrees to take over a GCM Client by means of Porting.
<b>SUSPENDED CLEARING MEMBER</b>	A Clearing Member for which the CDCC Board of Directors has suspended its participation in the CDCC clearing system.
<b>PORTING</b>	A transfer under the GCM Regime of eligible positions with the associated Collateral from a Suspended Clearing Member to another Receiving Clearing Member.
<b>PORTING FORM</b>	Instructions provided to CDCC from the Receiving Clearing Member and Client enabling porting.

1. The investment dealer's regulators use the term "Replacement Clearing Member" to refer to a CDCC Receiving Clearing Member.

# Who is this fact sheet for?

This fact sheet is primarily directed and designed for GCM Clients, but will also be useful to any other CDCC stakeholders. This document will help to better understand the CDCC GCM regime<sup>2</sup>. It provides a summary of key concepts, benefits and risks for Clients of the Clearing Members. Clients should discuss with their Clearing Member whether they qualify as GCM Clients under the CDCC GCM Regime.

## Segregation

### What is GCM?

The CDCC GCM regime is a segregation model for Futures markets, which means that Clients' positions and Collateral are held and accounted separately from the positions and Collateral of a Clearing Member. Additionally, the positions of a Client of a Clearing Member are also segregated from the positions of another Client of the same Clearing Member.

Under the GCM regime, CDCC calculates the margin requirement daily, separately for each Client on a gross basis. However, the Collateral pledged to cover each account is commingled in a pooled account. The Clearing Member will decide what type of eligible Collateral, based on the CDCC Rules and requirements, will be pledged to the pooled account to cover the initial margin requirement of each Client account.

### Benefits of the CDCC GCM Regime

CDCC is implementing its GCM regime to ensure:

1

Enhanced protection of Clients' positions and Collateral value in the Event of a Default of a Clearing Member.

2

Reliable identification of a Clearing Member's Client's positions and associated Collateral.

3

A better determination of who assumes the obligations of the Suspended Clearing Member.

Additionally, segregation will enable the transfer by way of Porting of a Client's positions and associated Collateral value.

### What products are included in GCM?

All Clients trading Futures and Options on Futures on the Montréal Exchange have their positions cleared at CDCC and therefore will be under the GCM regime. These positions are eligible for the GCM protection and portability arrangements. Please note that hedge open positions and other types of options are NOT included under this regime.

### Eligible Futures contract

The following categories of Futures contracts listed below are included in the CDCC GCM regime (along with their corresponding Option on Futures if applicable):

#### INTEREST RATE DERIVATIVES

Bond Futures  
Short-Term Interest Rate Futures

#### EQUITY DERIVATIVES

Share Futures

#### INDEX DERIVATIVES

Index Futures

The exhaustive list of eligible Futures contracts under the GCM regime may be subject to change. For more information, please refer to the CDCC's Rule. Readers may also consult the list of tradeable Futures on the Montréal Exchange website.<sup>3</sup>

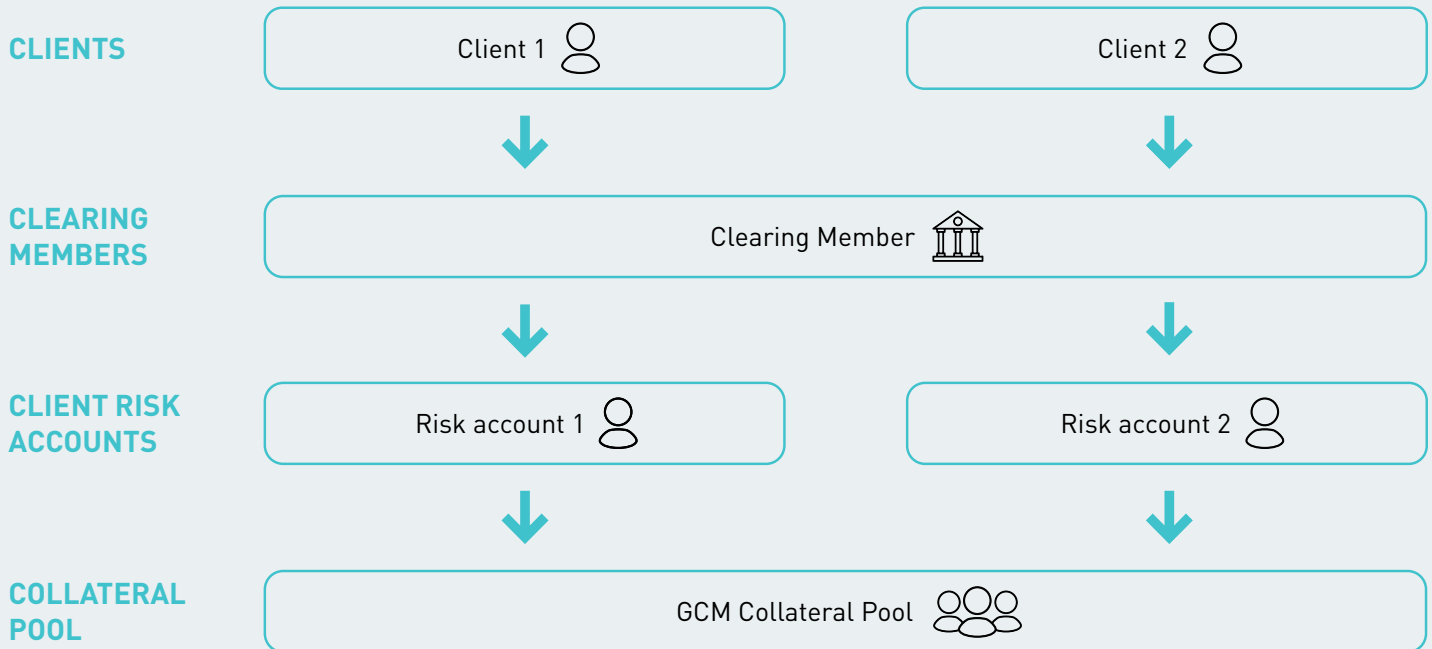
2. This new regime is in accordance with the Principle 14, Segregation and Portability, as described in the April 2012 report Principles for financial market infrastructures (the PFMI Principles)

3. <https://www.m-x.ca/en/markets>

## CDCC Account Structure

In order for CDCC to implement the proper segregation of positions, CDCC must receive information on Clients' positions from its Clearing Members. Clients hold their positions at their dealer and that dealer (acting as a CDCC Clearing Member) will provide CDCC with updated information on the positions. CDCC will receive these updates either in real-time or at end-of-day, depending on the CDCC type of account.

With these reported Client positions, CDCC calculates margin requirements separately and on a gross basis amongst Clients in risk accounts (established by CDCC). At a minimum, CDCC will receive updated information on positions held by the client from their dealer and update the margin at least once a day.



The type of account that will be opened at CDCC will be based on the Clearing Member assessment (i.e. operationalization, risk management, cost, etc.) of its Clients. While all accounts provide the same level of protection under the GCM regime, Clients should discuss with their Clearing Member about the CDCC's account structure. Regardless of the account type, CDCC Clearing Members must maintain sufficient initial margin to cover the risk of each Client risk account.

## Portability

In the event of the suspension of a Clearing Member, two outcomes are possible:

1

Transfer by way of Porting (GCM regime only)

2

Liquidation

### What is a Transfer by way of Porting?

Porting allows a Client to transfer its open positions and associated Collateral from a Suspended Clearing Member to another Receiving Clearing Member. Note that for the Collateral, CDCC will only port the amount corresponding to the initial margin requirement of the account. Any excess in the pool of Collateral will instead be transferred to the insolvency trustee.

## Porting Benefits

Portability of Client positions and associated Collateral is an alternative to closing out the positions (Liquidation) under the standard CDCC default management procedure that minimize negative impacts on the Client's open positions. Porting minimizes the costs and potential market disruption, particularly during periods of stress, maintains continuous clearing access for the ported Clients and generally promotes efficient financial markets.

## Porting Period

The procedure related to the transfer by way of Porting starts when CDCC declares the suspension of a Clearing Member and continues until CDCC completes the default management process.

CDCC distinguishes two separated deadlines:

1

Pre-porting deadline to receive all the forms is set at **12 p.m. ET** on the next business day following the declaration of suspension.

2

Porting deadline for positions and associated Collateral transfer set at **7 p.m. ET** on the next business day following the declaration of suspension.

During the pre-porting period, all requirements (as described below) must be fulfilled in order to allow portability. Otherwise, the account will have to be liquidated.

## Porting Pre-arrangements

Clients wishing to be ported must request the transfer through a new Receiving Clearing Member.

CDCC strongly encourages Clients to seek prior arrangements with a Receiving 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 Receiving Clearing Member and the prospective Client.

## Porting Process

### Porting initiation

Once a Clearing Member is declared suspended, the first step in the Porting process is for CDCC to inform its stakeholders of the decision to allow Porting. To do so, CDCC will publish a notice (Member Notice) of Porting on CDCC's website<sup>4</sup>. This notice will contain all the necessary information for Clients on how to be ported.

### Responsibilities of the Client

In the event that a Clearing Member is suspended from CDCC and the Client is reported by the Clearing Member to CDCC, Clients will have to undertake the following steps in order to request a transfer by way of Porting.

- Validate its positions and associated Collateral from the reports that will be transmitted through the suspended Clearing Member (originally produced by CDCC).
- Promptly contact its Receiving Clearing Member and request a transfer by way of Porting.
- Share their CDCC positions and associated Collateral reports with the Receiving Clearing Member to confirm the identity and positions held by the Client.
- Review, consent and sign, along with its Receiving Clearing Member, the Porting Form available on CDCC's website.

### Responsibilities of the suspended Clearing Member

Even if a Clearing Member has been suspended by CDCC, the firm will still play an active role in the Porting process. The suspended Clearing Member will participate by providing Clients with reports containing positions and associated Collateral for each Client Risk Account (originally produced by CDCC).

4. [https://cdcc.ca/publications\\_notices\\_en](https://cdcc.ca/publications_notices_en)

## Pre-requisites of Porting

Only Futures and Options on Futures positions and associated Collateral are subject to portability under the GCM regime. Any Collateral excess of the GCM Collateral pool will NOT be ported.

CDCC will, on a best efforts basis, following the request of a Client to transfer by way of Porting its positions and the associated Collateral held by CDCC in respect of such individual Client Risk Accounts, subject to:

- CDCC receiving the updated positions and Client identities from the suspended Clearing Member.
- CDCC receiving the Porting Form before the porting cut-off time (12 p.m. ET on the business day following the suspension declaration). All documents must be properly completed with correct information and signed by both the Client and Receiving Clearing Member. CDCC will reject incomplete Porting Forms received or forms containing anomalies.
- The risk account containing sufficient Collateral to completely cover its required initial margin at the time of default.
- The confirmation from CDCC that porting is available.
- The Receiving Clearing Member providing any additional documentation (or requirements) which may be required by CDCC to transfer by way of Porting.

## Inherent Porting Risks

While the Porting regime at CDCC may allow Clients to transfer their open positions and associated Collateral to a Receiving Clearing Member, it also introduces other risks that Clients should be aware of. These risks may negatively impact the value of the associated Collateral of the Client. Since the Client associated Collateral is commingled in a pooled account, the client is exposed to risks that:

- The type and value of the associated Collateral ported to the Receiving Clearing Member may differ from Collateral the Client deposited at the Clearing Member,
- The Client's excess deposit may be ported to accounts of other Clients that have not deposited sufficient funds at the Clearing Member to meet their margin requirements, and
- The Collateral ported may not be adequate to cover the margin required by the Receiving Clearing Member, resulting in a requirement for the Client to provide additional deposits to the Receiving Clearing Member after being ported.

## Additional Risks that May Prevent Porting

Independently of completing all the forms and meeting the porting requirements within the Porting period, some additional risks may prevent Porting. For example, porting may not occur if:

- CDCC determines porting is not feasible based on market conditions, Collateral deficiencies or any other reasonable reasons at its discretion,
- The Clearing Member does not provide the updated Client positions and information required by CDCC at the time an Event of Default occurs,
- The Client does not have a pre-arrangement in place with a Receiving Clearing Member and the Client is unable to find a Receiving Clearing Member within the Porting period, or
- The Receiving Clearing Member does not accept the Client positions for Porting.

## Liquidation

Client accounts under the GCM regime for which CDCC did not receive any instructions or valid Porting instructions will be liquidated according to the current market conditions. Additionally, Client accounts under the Non-GCM regime (which are not eligible for Porting) will be liquidated in accordance with the current CDCC default management process. The liquidation of positions will be performed no later than the end of the second business day following the declaration of suspension. CDCC will deduct any costs, losses and expenses incurred in liquidating the positions from the collateral value of the account. CDCC will then return any remaining collateral value to the insolvency trustee. Please refer to the CDCC's Default Manual for details.<sup>5</sup>

5. [https://www.cdcc.ca/f\\_rules\\_en/cdcc\\_operations\\_manual\\_en.pdf](https://www.cdcc.ca/f_rules_en/cdcc_operations_manual_en.pdf)

# For more information

cdcc.ca

Please note that this fact sheet is not an exhaustive analysis document, but rather a summary overview of the GCM regime at CDCC. For additional details on the GCM regime at CDCC, or other related information, we refer you to the following documentation:

- CDCC Rules<sup>6</sup>;
- CDCC Operations Manual<sup>7</sup>;
- And finally, Notices to members 102-21<sup>8</sup>, 164-21<sup>9</sup> and 029-22<sup>10</sup> which details the full list of changes following the introduction of the GCM regime at CDCC;

Unless otherwise defined in the fact sheet, any defined term used in this document will have the meaning described in the CDCC Rules and Operations Manual.

Please be advised that the material provided in the fact sheet is for general information purposes only. It is not intended to provide legal, accounting, tax, investment or financial advice or opinions of any kind and may not be used for professional or commercial purposes. No one should act, or refrain from acting, based solely upon the materials provided in this fact sheet document, any hypertext links or other general information without first seeking appropriate legal or other professional advice. Your use of these materials is at your own risk. Only your individual advisors can provide assurances that the information contained herein – and your interpretation of it – is applicable or appropriate to your particular situation.

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6. <https://rules.cdcc.ca/w/cdcc/cdcc-en>

7. [https://www.cdcc.ca/f\\_rules\\_en/cdcc\\_operations\\_manual\\_en.pdf](https://www.cdcc.ca/f_rules_en/cdcc_operations_manual_en.pdf)

8. [https://www.cdcc.ca/u\\_avis\\_en/102-21\\_en.pdf](https://www.cdcc.ca/u_avis_en/102-21_en.pdf)

9. [https://www.cdcc.ca/u\\_avis\\_en/164-21\\_en.pdf](https://www.cdcc.ca/u_avis_en/164-21_en.pdf)

10. [https://www.cdcc.ca/u\\_avis\\_en/029-22\\_en.pdf](https://www.cdcc.ca/u_avis_en/029-22_en.pdf)