

March 2023

CDCC

Gross Client Margin

**FAQ: CDCC Gross Client
Margin (GCM) Regime**

Table of Contents

- SECTION 1 General 3**
- SECTION 2 Segregation 4**
- SECTION 3 Porting and Default Management Impacts 5**
- SECTION 4 Risk Management Impacts 7**
- SECTION 5 Operational Impacts 9**
 - Account Structure 9
 - Reports 10
 - Timelines 10
 - GCM Impacts 10
- SECTION 6 For More Information 12**

General

Why is CDCC proposing a Segregation & Portability (“Seg and Port”) regime?

The proposed CDCC Seg and Port regime (GCM model for the Futures market) was introduced to comply with global standards established under Principle 14 of Principle for Financial Market Infrastructures (“PFMI”) published by the Bank of International Settlements (“BIS”)¹.

What is the GCM model?

GCM is a margin model used by a futures central clearing counterparty (“CCP”) where the amount of margin that a clearing member must post to the CCP on behalf of its clients is determined as the sum of the margin required for each client. In contrast, under a net margin model, the CCP does not distinguish between each individual client’s positions within the aggregated customer omnibus account of the member.

Does the GCM model have implications for the investment dealer’s regulators and CIPF?

Yes. While allowing CDCC to comply with Principle 14, dealers and customers should consult appropriate information from the investment dealer’s regulators and CIPF.

Accordingly, CDCC², in conjunction with formerly the Investment Industry Regulatory Organization of Canada (“IIROC”)³, have proposed amendments to meet international standards for the protection of clients in the event of a suspension of a clearing member.

Why did CDCC select the GCM model?

Following consultations with all key stakeholders and analysis of various Seg and Port models, the GCM model was determined as the most appropriate for the Canadian Futures’ market, as it achieves an appropriate level of protection while limiting operational impacts and costs compared to more complex solutions such as full segregation of customer positions and collateral in a dedicated account.

What additional protection does the GCM model provide to clients?

The proposed CDCC amendments under the GCM model empowers CDCC to more rapidly port (via new porting arrangements) client Futures’ positions and related collateral value from a clearing member that is in default to a different clearing member.

What are the main changes for clearing members under the GCM model?

1

The declaration of daily client GCM Futures’ positions is required;

2

Clearing members must maintain a client identification record for client accounts subject to the GCM model and also must inform the clients of the risks, benefits, conditions and requirements of porting Futures’ positions to a receiving (replacement) clearing member;

3

The segregation of firm/client collateral at CDCC (to avoid that any client margin excess covers a firm margin deficit or clients in different pools).

Is GCM mandatory for the Futures’ market?

Yes, by default, all client Futures’ positions (including options on Futures and Share Futures) will fall under the scope of the GCM Regime. Note that this regime does not apply for firm positions.

1. <https://www.bis.org/cpmi/publ/d101a.pdf>

2. Request for comments (Notices to Members [102-21](#), [164-21](#), and [029-22](#)).

3. <https://www.iiroc.ca/news-and-publications/notices-and-guidance/republishing-proposed-amendments-iiroc-rules-relating-futures-segregation-and-portability-customers#toc-impacts-of-the-proposed-amendments->

Is there an exemption for any Futures' positions from the GCM Regime?

Yes. CDCC will initially offer exemption from the GCM regime for short Futures' positions opened in specific multipurpose accounts (client hedge activity defined) and fully covered (in terms of margin requirement) by Futures Underlying Interest Deposits. These positions will be considered as part of the Non-GCM Regime and hence not eligible for additional client protection such as porting.

Will GCM be applicable for equity options and the Fixed Income Transactions (Repo)?

No. These positions will be considered as part of the Non-GCM Regime and hence not eligible for additional client protection such as porting.

How can clearing members provide direct information to clients for the GCM regime and protection?

CDCC, in collaboration with IIROC, is providing a client disclosure document regarding the GCM regime at CDCC. The disclosure 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 and the porting process as well as provide a summary of key concepts and the benefits for clients of the clearing members.

When will GCM be implemented?

The GCM regime will be implemented on March 31st, 2023 after market close. Please refer to the timeline in section 5 (Operational Impacts) of the FAQ.

What level of client declaration will the clearing member need to report to CDCC?

The level declared at CDCC should match the IIROC requirements.

What is the treatment for affiliates of a clearing member?

Foreign affiliates are generally treated as a client.

Segregation

How will the GCM model segregate client positions and collateral?

Under GCM, CDCC as the CCP, will require the clearing member to disclose each client's positions held in the CDCC client omnibus account to the CCP daily. The requirements for GCM and daily client position reporting should ensure that the CCP has adequate aggregate collateral and position information to allow for a more rapid porting of client positions and related imputed collateral value from a suspended clearing member to a receiving clearing member.

What is the frequency of updates of the GCM client positions?

It is the clearing member's responsibility to declare the GCM client positions on an end-of-day basis prior to the 9:00 p.m. ET cutoff. Updated files can be sent throughout the day, up to the cutoff time. The last received update will be used for GCM processing. Failure to declare will result in the GCM client positions being margined in the balance account without any offsetting.

What information does the GCM declaration file contain?

The information in the GCM declaration file is standardized (in FIXML format) and the different types of information that are included are linked to a client declaration for its Futures and options on Futures portfolio: submission date, CM ID, CDCC client omnibus account ID, masked client ID (alphanumeric ID), contract symbol, long/short positions. The GCM declaration file does not support multiple levels of declaration (i.e. 2 levels of declarations directly in the file).

Please also note that client ID information (LEI, name, address, or any personal ID data) should not be provided via this GCM declaration file on a BAU basis. Client information should only be provided following a suspension of a clearing member (or on demand by CDCC) via a dedicated GCM client mapping file which maps each risk account with the corresponding client information (name, address, contact information, etc.).

What are the new collateral pools (firm, GCM, Non-GCM)?

In order to segregate the GCM client collateral from other clients' collateral and the porting collateral, CDCC has created 3 new distinct collateral pools (firm, GCM, Non-GCM), where the margin requirement is independently aggregated. Moreover, this will enable CDCC to avoid any excess of the client pool (GCM or Non-GCM) to cover the deficit from another pool.

How will CDCC segregate the GCM client collateral?

Under the GCM regime, CDCC calculates the margin requirement separately for each client on a daily basis (in CDCC client risk accounts). However, the collateral pledged to cover each account is commingled in a pooled account (GCM pool). The clearing member will decide what type of collateral (if eligible under the CDCC Rules and requirements) will be pledged to cover the initial margin. Regardless of the account type (where client positions are held), CDCC client risk accounts must contain sufficient collateral value to completely cover (i.e. fully funded) each client required initial margin.

Will CDCC get the physical client collateral directly at CDCC?

No, the clearing member will decide what type of collateral will be pledged to cover the initial margin which may differ from the physical collateral pledged by the client to the clearing member.

Porting and Default Management Impacts

What is porting?

Porting allows a client to transfer its open positions and collateral from a suspended clearing member to a receiving (replacement) clearing member.

What are the benefits of porting?

Rather than closing out positions, portability of client positions and collateral provides an opportunity to manage open positions, under stressed market conditions, while limiting the impact on the client. Porting helps to minimize costs and to maintain continuous clearing access and generally promotes efficient financial markets.

What is the 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 separate deadlines:

1

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

2

Porting deadline for CDCC to initiate the transfer of the positions and collateral by 7 p.m ET on the next business day following the declaration of suspension. The receiving clearing member will have to confirm the position transfer in Sola and the collateral transfer in CDSX.

Are Pre-arrangements between clients and alternate clearing members mandatory?

No. However, CDCC encourages clients to seek ex-ante arrangements with an alternate clearing member before a potential default event. These arrangements will increase the likelihood of porting success through an expedited process.

What are the porting instructions?

In the event that a client requests a transfer by way of porting due to the suspension of a Non-Conforming clearing member, the porting instructions are mandatory. The porting document includes instructions for CDCC and also defines the Terms and Conditions between the receiving clearing member, the client and CDCC. It is a prerequisite for porting and must be sent to CDCC before 12 p.m. ET, on the next business day following the suspension declaration.

What is expected from CDCC?

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. CDCC's decision will be accessible on CDCC's website ([Member Notices](#)).

CDCC will also perform the following:

- Produce individual client reports containing the positions and collateral for each client risk account. These reports will be available for any potential client requesting porting and for their receiving member.
- Confirm the acceptance of porting and will proceed to the transfer according to the rules.
- Assume the obligations of the suspended non-conforming clearing member during the porting period. CDCC will pay and collect in its bank account any daily settlement (e.g. gains and losses) until the positions are ported.
- Produce a final porting results report, detailing which client accounts have been ported and which client accounts have been liquidated. This report will be sent to the bankruptcy trustee for reconciliation purposes.

What is expected from the suspended clearing member?

The suspended clearing member shall remain liable to the CDCC for all obligations, costs and expenses and therefore must submit the following files to CDCC in order to proceed with porting:

1

An updated GCM declaration file containing the daily positions for a CDCC client omnibus account.

2

The client mapping file, containing the unmasked client IDs. It will allow CDCC to identify and map the risk accounts to their beneficiary owner.

What is expected from the receiving clearing member?

Following a potential client request to be ported, the receiving clearing member would perform the following actions:

1

Verify the report received from its new client (reports produced by CDCC) and confirm the identity and positions held by the client.

2

Ensure that the porting instructions is properly completed and executed along with the reviewed identity documentation and positions reports to CDCC before 12 p.m. ET the next business day.

Note that the receiving clearing member will also be fully liable for identifying the client and for all obligations related to the client ported Risk Account during and after the Default Management Period once CDCC confirms that it is proceeding with the porting of the client.

How can an account be fully funded?

The collateral ported has to be sufficient to cover the initial margin required by the receiving clearing member.

In the event of a suspension of a clearing member, what happens to the excess collateral, if there is any?

When allocating the collateral to each client, CDCC could be in a situation where there is an excess of collateral compared to the required initial margin for the client account: This excess will be returned to the trustee overseeing the bankruptcy of the suspended clearing member. Client excess collateral is not known to an individual client and is instead determined at the collateral pool level.

In regards to excess collateral for the firm account, any excess would remain under CDCC control in the event of a suspension of the clearing member. Having control over this excess helps CDCC minimize, to the extent possible and on a best efforts basis, the losses to the Corporation and its stakeholders. CDCC would also prevent or restrict the suspended clearing member's right to withdraw any excess in Margin Deposits.

What happens if the porting prerequisites are not fulfilled?

Any client accounts for which CDCC did not receive a complete and valid porting request will be liquidated. The positions will be liquidated according to the current market conditions.

When will the positions be liquidated?

GCM client accounts for which CDCC did not receive any instructions or valid porting instructions and Non-GCM client accounts will be liquidated according to the current market conditions. The liquidation of positions will be performed no later than the end of the second business day following the declaration of Suspension.

Where will Ported Positions be transferred?

CDCC will transfer positions using the CUID provided and account number from the receiving clearing member on the porting instructions. In SOLA Clearing, the receiving clearing member will then have to add the CDCC account where the positions will be deposited (CDCC client omnibus or CDCC individual account) and finally confirm the transfer.

Will the client keep the same collateral as pledged by the client with the suspended CM?

Clearing members pledge collateral to cover the risk of GCM clients in a single commingled collateral pool. Therefore, CDCC cannot map client's collateral as it was originally pledged to its clearing member and cannot guarantee that the specific collateral will be returned. Based on a fair allocation mechanism determined by CDCC, clients will receive collateral value (in any CDCC eligible forms of collateral) that the clearing member pledged to CDCC. The list of securities allocated as Collateral to each client will be detailed in the individual client report that CDCC produces during the default management period.

How will the losses (if any) be allocated?

Losses will be covered according to CDCC's Default Waterfall. Moreover, any residual collateral from GCM and Non-GCM pools will be protected and not used by CDCC to offset losses from the firm account. The full details will be found in [CDCC's Default Manual](#) (the Default Manual will be updated once regulatory approval is granted).

Risk Management Impacts

Does the GCM model impact the margin methodologies in use?

No. The same margin methodologies for the calculation of the base initial margin (including the variation margin for Options and Unsettled Items) continue to apply to all client accounts, whether they are under the GCM regime or not. CDCC will accommodate for additional margin offsets by allowing long positions on Option products under the GCM regime (i.e. Options on Futures only), or within client Individual accounts (i.e. all Options) to become marginable. The margin methodologies used for the calculation of the Additional Margins are not impacted by the launch of the GCM model (e.g. capital margin risk add-on, intra-day variation margin add-on).

Does the GCM model impact the aggregation of the variation margin for Futures products?

No. The aggregation of the variation margin for Futures products remains the same: it is aggregated at the clearing member level, and cash settled every business day.

Does the GCM model impact the level of the margin requirements?

Yes. The GCM model impacts the risk account level at which the margin is evaluated, which impacts the level of the base initial margin for clearing members using CDCC client omnibus accounts, and may also impact the level of the clearing fund for all clearing members (in the case when the largest credit shortfall used to calibrate the size of the clearing fund is impacted by the GCM model).

What are the new margin components to support the GCM model?

Since individual client GCM positions in CDCC client omnibus accounts are only reported at the end-of-the-day via the new GCM declaration file, the frequency of base initial margin calculation (including the variation margin for Options) is limited to once per day. In order to ensure that the level of margin requirement between two end-of-day processes adequately reflects the level of risk, two Additional Margins are introduced specifically to increase the portability likelihood: the intra-day GCM Risk (covers the risk arising from new trades between two consecutive business day updates of the GCM declaration File), and the Undeclared GCM Position Risk (covers the risk that arises on a business day when a clearing member does not report in whole or in part eligible positions in the GCM declaration file).

What does “CDCC book position” mean in a margin methodology perspective?

The term “CDCC book positions” refers to the current level of position booking at CDCC. The term is used in opposition to the new GCM level of position declaration for CDCC client omnibus accounts. For such accounts, the CDCC will maintain the computation of the base initial margin (including the variation margin for Options) based on the CDCC book positions, exclusively in order to calibrate the current Additional Margins (e.g. capital margin risk add-on, intra-day variation margin add-on), and to calibrate the new Additional Margin for intra-day GCM Risk.

What changes in calibration will be activated with the launch of the GCM model?

The calibration of the Additional capital margin risk will change: the clearing members will be required 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).

How are the margin requirements aggregated under the GCM model?

The margin requirements are aggregated so as to match the corresponding new collateral pools (i.e. firm, GCM, and Non-GCM). The most impacted component is the base initial margin (including the variation margin for Options and Unsettled Items) which must be assigned to the appropriate pool, depending on the originating risk account. The two new GCM related Additional Margins are allocated to the GCM pool. The other Additional Margins remain at the same clearing member level which is now explicitly associated with the firm's pool.

How are the overnight risk thresholds calculated under the GCM model?

The risk thresholds that are currently used during the overnight clearing session will remain the same (currently calibrated at 10% of the clearing member's total margin requirement). To support the GCM model, the CDCC will aggregate the margin requirements corresponding to the new collateral pools, exclusively in order to calibrate the overnight risk thresholds.

What impact does the GCM regime have on SPAN for clients?

The Montreal Exchange proposed amendments to its Rules⁴ to allow for the optional use of Standard Portfolio Analysis (“SPAN”) methodology for Canadian client accounts that are subject to the GCM model, providing the possibility for CDCC to provide (i.e. directly to clients) additional SPAN margin relief benefits under GCM for the Futures market.

4. Request for comments ([circular 124-21](#)).

Operational Impacts

Account Structure

Will GCM impact the Account Structure?

The same type of accounts (firm, multipurpose and Client) will continue to be supported. For client positions, segregation of positions between GCM and Non-GCM Regime will be done automatically by SOLA with appropriate client Risk Account treatments and collateral (margin) allocation to the different collateral pools (firm, GCM, Non-GCM).

Additional considerations however, need to be taken into account: client accounts will be considered as client omnibus accounts and hence are subject to the daily GCM declaration file for the Futures market under GCM. Moreover, multipurpose accounts will need to be explicitly defined by members as being for client or firm related activity. Additionally, the multipurpose account for client related activity can explicitly be opened as client hedge (Non-GCM Regime) to get an exemption from the GCM regime and be able to fully cover (in terms of margin requirement) these specific positions with Futures Underlying Interest Deposits as described in the general section. Note that this concept is not related to the hedge/speculator categorization for a client (for example as defined in the Bourse futures margin rules) and is specific to CDCC for the appropriate GCM versus Non-GCM treatment.

How can a member avoid the daily GCM client positions declaration for client omnibus accounts?

Members that have a limited number of clients (for the Futures market) may want to migrate from a client omnibus account structure (with dynamic daily declarations) to a more static multipurpose accounts structure to avoid sending CDCC a daily GCM declaration file. To this end, each individual client position would need to be moved in a specific multipurpose (client type) account, where their positions are automatically segregated and reported for GCM. In addition, the clearing member needs to ensure the trading activity on Bourse de Montréal is mapped to the new multipurpose account. Please note that any migration needs to be discussed with CDCC and tested prior to the go-live.

Will the multipurpose sub account request form be updated?

Yes, the form has been modified to allow members to select if the multipurpose account will be defined as firm, client or client hedge. A new request form has been created and is available on [CDCC's extranet](#), under the contingency form section.

Do you require clearing members to inform CDCC of any Account changes?

CDCC will require members to identify in a provided spreadsheet containing all multipurpose accounts which accounts are for client activity and which are for firm activity and the default will be client activity if the spreadsheet is not returned. This will be required to ensure the EOD replay planned with production data has the correct coding to calculate margin in the appropriate margin pool. Any changes required after the submission of the spreadsheet will require submitting the multipurpose sub account form mentioned above. The coding of multipurpose accounts will not have any impact in production but will be used at go live to calculate margin in the appropriate margin fund.

How do we open an account after GCM goes live?

1

There will no longer be an auto creation of multipurpose accounts.

2

Members must ensure to open the multipurpose accounts before the start of trading and clearing in order to default activity to the appropriate account.

3

The only change is that the member must use the new form described above and identify if the multipurpose account is for firm or client activity.

Reports

Are there any changes to existing reports?

Yes, the existing reports impacted are the following and further details are provided in the notice to members:

MA01 - Collateral Report

MS01 - Daily Settlement Summary

MS06 - Total Margin Requirement Report

MS07 - Margin Report By Account

MS08 - Daily Margin Positions Report

MT53 - List of Futures/Cash Adjustments

MT66 - Futures Sub-Acct Consolidated Activity

MT99 - Detailed Fut. Consolidated Activity Report

MP54* - GCM declaration report (CSV format) MP54 Note: 'Pending' Status = Record was accepted

MP55* - GCM Position Reconciliation and Balance Report (CSV format)

End of Day Tag Logs

* New report

Will there be any new reports created after GCM is launched?

Yes, the new reports are the MP54 and MP55.

Will there be any change to clearing members accessing reports?

No, the existing reports will continue to be available via SFTP.

When will the reports be available?

All Impacted reports - new and existing reports - will be available around 9:30 p.m. ET.

Timelines

When will the technical implementation be completed?

Technical implementation was completed on August 1, 2022.

When is the launch day for GCM?

The GCM regime will come into effect after market close on March 31, 2023.

GCM Impacts

What are the impacts on collateral management after GCM launch?

Margin requirements will be calculated in 3 different pools: firm, GCM, Non-GCM. Any collateral deposits/withdrawals in CDS remains the same but in SOLA the members must select in which pool(s) to apply the deposit/withdrawal to equal the CDS entry.

To simplify manual transfers of collateral between pools, CDCC will provide members the option to automatically transfer collateral from the porting pool to the GCM and Non-GCM collateral pools if the member has enough excess to avoid a margin call.

EOD Batch will start around 9:15 p.m. ET and reports will be delivered to the SFTP around 9:30 p.m. ET, instead of 6:30 p.m. ET.

Processing the GCM declaration file on BAU?

For members having Futures' positions in the CDCC client omnibus accounts, a GCM declaration file must be provided daily by members via FIXML file specification document. The file must be transmitted before 9 p.m. ET and contain Futures' positions (including options on Futures and Share Futures) held by their clients in this specific account type.

Since the official book of record for client positions is held by members any differences against CDCC positions will be subject to a PCS (Position adjustment) in accordance with the Gross client Margin via FIXML file specification document. A best effort will be made to align the CDCC book of record to the GCM declaration file.

If clearing members are unable to send the GCM declaration file via SFTP, clearing members should inform CDCC Operations at cdcc-ops@tmx.com.

If the file is not sent in a timely manner, CDCC will reuse the previous day's file for margin calculations.

How will the client mapping file be processed following a clearing member's suspension?

In the event of the suspension of a clearing member, this file will help CDCC with the following:

1

Identify the legal beneficiary owner of a client account.

2

Map the CM's internal client account number to the Sola account ID.

3

Produce the clients' positions and collateral reports for clients to be ported to receiving clearing member(s).

This file is required from a clearing member the day of its suspension from CDCC no later than 9:00 p.m. ET, the same deadline as the GCM position file. This file should be uploaded using the same SFTP account as the GCM Position declaration File.

Please refer to the specification document, available on the [CDCC Extranet](#) for more details.

For more information

cdcc.ca

Where can I learn more about CDCC's GCM Regime?

Individual clearing member questions on CDCC's GCM Regime can be addressed to CDCC client services at cdcc-cs@tmx.com.

Please note that this FAQ 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 Rules⁵;
- CDCC Operations Manual⁶;
- And finally, Notices to members 102-21⁷, 164-21⁸ and 029-22⁹ which details the full list of changes following the introduction of the GCM regime at CDCC;

Please be advised that the material provided in the FAQ 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 FAQ 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.

The laws of the province of Quebec and the laws of Canada applicable therein shall govern the use of this document and interpretation, notwithstanding any conflict of laws, provisions or your domicile, residence, or physical location. You hereby consent and submit to the exclusive jurisdiction of the courts of the province of Quebec in any action or proceeding related to this document and agree not to commence any such action or proceeding except in Montréal, Quebec, Canada.

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

6. https://www.cdcc.ca/f_rules_en/cdcc_operations_manual_en.pdf

7. https://www.cdcc.ca/u_avis_en/102-21_en.pdf

8. https://www.cdcc.ca/u_avis_en/164-21_en.pdf

9. https://www.cdcc.ca/u_avis_en/029-22_en.pdf