

## NOTICE TO MEMBERS

No. 2022 - 012

January 31, 2022

### SELF-CERTIFICATION

#### **AMENDMENTS TO RULES, OPERATIONS MANUAL, RISK MANUAL AND DEFAULT MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION TO INTRODUCE A SUPPLEMENTAL LIQUIDITY FUND**

On January 29, 2021, the Board of Directors of Canadian Derivatives Clearing Corporation (“CDCC”) approved certain amendments to the Rules, Operations Manual, Risk Manual and Default Manual of CDCC in order to require the Clearing Members to contribute to a new fund, the Supplemental Liquidity Fund.

CDCC wishes to inform the Clearing Members that these amendments have been self-certified pursuant to the self-certification process set forth in the *Derivatives Act* (C.Q.L.R., c I-14.01) and submitted to the Ontario Securities Commission in accordance with the “Rule Change Requiring Approval in Ontario” process.

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Rules and Manuals of CDCC that will be made available on the CDCC website at [www.cdcc.ca](http://www.cdcc.ca) on **January 31, 2022, after market close**.

The amendments described in the present notice were published for public comment by CDCC on August 20, 2021 (see Notice [130-21](#)). Further to the publication of this notice, CDCC received comments from Clearing Members that are summarized in the table attached to this notice. Following the receipt of these comments, please note that CDCC made minor modifications to:

- Subparagraphs A-6A07 (1) and A6A07 (5); and
- Definition of “Liquidity Shortfall” in the Risk Manual.

If you have any questions or concerns regarding this notice, please contact Martin Jannelle at 514-787-6578 or at [martin.jannelle@tmx.com](mailto:martin.jannelle@tmx.com).

George Kormas  
President, CDCC



**CANADIAN DERIVATIVES CLEARING CORPORATION**

**RULES**

**DECEMBER 11, 2020**

## PART A – GENERAL

### RULE A-1 DEFINITIONS

#### Section A-101 SCOPE OF APPLICATION

Unless the context otherwise requires or unless different meanings are specifically defined, for all purposes of these Rules the capitalized terms used herein shall have the meanings given them in Section A-102.

#### Section A-102 DEFINITIONS

**“Acceptable Instrument Types”** or **“Acceptable OTCI”** – means Over-the-Counter Instruments which are determined by the Corporation as acceptable for clearing with the Corporation.

**“Acceptable Marketplace”** – means a bilateral or multilateral marketplace, other than an Exchange, where buyers and sellers conclude transactions in Acceptable Instrument Types including bilateral trades between two Fixed Income Clearing Members and which meets any of the following requirements (i) in the case of a marketplace which is an alternative trading system (**“ATS”**), it has qualified as such and complies with the applicable requirements of National Instrument 21-101 – *Marketplace Operations* (**“21-101”**) and National Instrument 23-101 – *Trading Rules* (**“23-101”**) as determined by the Corporation, and (ii) in the case of an inter-dealer bond broker (**“IDBB”**), it has qualified as such and complies with applicable IIROC Rules including IIROC Rule 2800 and applicable requirements of 21-101 and 23-101 as determined by the Corporation, and (iii) in the case of bilateral trades between Fixed Income Clearing Members involving an SRO Clearing Member, the SRO Clearing Member complies with applicable requirements of 21-101 and 23-101 as determined by the Corporation.

**“Acceptable Security”** – means a Security determined by the Corporation as acceptable for purposes of clearing Fixed Income Transactions and Futures for which the deliverable security is a fixed income security.

**“Acceptable Treasury Bills”** – means a short-term debt instrument, having a maturity of less than one year, issued by the Government of Canada and sold at a discount.

**“Acceptable Underlying Interest”** – means an Underlying Interest which is determined by the Corporation as acceptable for clearing by the Corporation.

**“Acceptance Criteria”** – means the criteria established by the Corporation for acceptance or rejection of an OTCI in accordance with the provisions of Section D-104.

**“Account Control Agreement”** – means an account control agreement in form acceptable to the Corporation entered into between the Corporation, a Clearing Member and an Approved Custodian.

**“Additional Deposit”** – means the additional amount required of the Clearing Member in addition to the Clearing Fund deposit pursuant to Section A-606.

“**Affiliate**” – means an Entity that controls, is controlled by, or is under common control with the Clearing Member. Control is defined as (a) ownership, control, or holding with power to vote 20% or more of a class of voting securities of the Entity or Clearing Member; or (b) consolidation of the Entity or Clearing Member for financial reporting purposes.

“**Afternoon Net DVP Settlement Requirement**” – has the meaning attributed thereto in Section D-601.

“**Afternoon Netting Cycle Timeframe**” – has the meaning attributed thereto in Section D-601.

“**American Option**” (or “**American Style Option**”) – means an Option which can be exercised at any time from issuance until its Expiration Date.

“**Amounts Due**” – has the meaning attributed thereto in Subsection A-409(10).

“**Application for Membership**” – means the Application for Membership which, when completed by a Clearing Member candidate and accepted by the Corporation, forms part of the Membership Agreement together with the Rules which are incorporated by reference therein and form a part thereof, as such Application for Membership may from time to time be amended, changed, supplemented or replaced in whole or in part.

“**Approved Custodian**” – means an Approved Securities Intermediary approved by the Corporation to act in such capacity pursuant to Section A-224.

“**Approved Depository**” – means an Approved Securities Intermediary approved by the Corporation to act in such capacity pursuant to Section A-223.

“**Approved Processes**” – means any CDCCS function for processing Transactions for clearing by the Corporation. CDCC may make available more than one Approved Process in respect of any clearing service.

“**Approved Securities Intermediary**” – means a financial institution approved by the Corporation in accordance with the criteria set forth in Section A-222 and, as applicable, Sections A-223 and A-224.

“**Assigned Position**” – means the position of the Clearing Member in any account for which such Clearing Member is the assigned Clearing Member in such account.

“**At-the-Money Option**” – means a call Option or a put Option with an Exercise Price that is equal to the Market Price of the Underlying Interest.

“**Authorized Representative**” – means a person for whom the Clearing Member has filed evidence of authority pursuant to Section A-202.

“**Bank Clearing Member**” – means a Clearing Member that is a bank to which the *Bank Act* (Canada), as amended from time to time, applies.

“**Base Deposit**” – means the minimum Clearing Fund deposit required of each Clearing Member pursuant to Section A-603.

“**Base Initial Margin**” – means a component of the Margin deposit required of each Clearing Member calculated in accordance with the Risk Manual.

“**Board**” – means the Board of Directors of the Corporation.

“**Business Day**” – means any day on which the Corporation is open for business.

“**Business Hours**” – means from 2 a.m. (ET) to the Close of Business on any Business Day.

“**By-laws**” – means the By-laws of the Corporation as the same may be amended from time to time.

“**Calculation Agent**” – means the Corporation when calculating certain close-out amounts as provided in Subsection A-409(9).

“**Call Underlying Interest Deposit**” – means the deposit by an Approved Depository acting on behalf of a Clearing Member or a client thereof of the Underlying Interest of a call Option with the Corporation through a Central Securities Depository.

“**Canada Mortgage Bonds (CMB)**” – means bullet maturity bonds that are fixed rate with a semi-annual coupon issued by Canada Housing Trust and guaranteed by Canada Mortgage and Housing Corporation.

“**Capital Adequacy Return (CAR)**” – means the documents specified from time to time by the Office of the Superintendent of Financial Institutions in its guidelines relating to capital adequacy requirements applicable to banks.

“**Cash**” – means money in the lawful currency of Canada.

“**Cash Settlement Amount**” – means the amount determined by the Calculation Agent in accordance with Subsection A-409(6).

“**Cash Settlement Amount Calculation Request**” – has the meaning attributed thereto Subsection A-409(6).

“**Cash Settlement Amount Calculation Request Date**” – has the meaning attributed thereto Subsection A-409(6).

“**Cash Settlement Payment Default**” – has the meaning attributed thereto in Subsection A-409(6).

“**Cash Settlement Payment Request**” – has the meaning attributed thereto in Subsection A-409(6).

“**CDCC Daylight Credit Facility**” – means the daylight credit facility of the Corporation, the amount of which is subject to change from time to time, with prior notice to Clearing Members.

“**CDCC Materials**” – means any material, data and information developed, created or compiled by the Corporation and provided by the Corporation to the Clearing Members in any form, and including the software, trade-marks, logos, domain names, documentation (including the Rules), Approved Processes, technical information, systems (including the clearing systems and electronic transmission systems), hardware and networks, that comprises the CDCS provided by the Corporation to the Clearing Members.

“**CDCS**” – means “**Canadian Derivatives Clearing Service**” and refers to the clearing and settlement system operated by CDCC, which is governed by the Rules.

“**CDS**” – means CDS Clearing and Depository Services Inc., acting as Central Securities Depository in Canada or acting in any other capacity, or any successor thereof.

“**CDS Funds Account**” – means a funds account established by a CDS participant under the CDS Participant Rules.

“**CDS Securities Account**” – means a securities account established by a CDS participant under the CDS Participant Rules.

“**CDS Participant Rules**” – mean the rules and procedures established by CDS that may from time to time be amended, changed, supplemented or replaced in whole or in part.

“**CDSX**” – means the clearing and settlement system comprising the Depository Service and the Settlement Service (each as defined in the CDS Participant Rules) of CDS.

“**Central Securities Depository**” – means any central securities depository acceptable to the Corporation, including CDS.

“**Class Group**” – means all Options and Futures relating to the same Underlying Interest.

“**Class of Futures**” – means all Futures covering the same Underlying Interest.

“**Class of Options**” – means all Options of the same style within the same maturity category on the same Underlying Interest.

“**Clearing Fund**” – means the fund established pursuant to Rule A-6 Clearing Fund Deposits.

“**Clearing Member**” – means an applicant who has been admitted to membership in the Corporation.

“**Client**” – means those customers of a Clearing Member who are not Market Makers or trading on behalf of a broker.

“**Client Account**” – means the account or accounts required to be established for Transactions of the Clearing Members’ Clients pursuant to Sections B-102, B-103, C-102, C-103, D-102 and D-103.

“**Clients Settlement Account**” – means the account established by Section A-403.

“**Close of Business**” – means the time at which the Business Day ends, as specified in the Operations Manual. The time may, at the sole discretion of the Corporation, be modified to address shortened trading days on Exchanges.

“**Closing Buy Transaction**” – means an Exchange Transaction the result of which is to reduce or eliminate a Short Position in the Series of Futures involved in such transaction.

“**Closing Purchase Transaction**” – means an Exchange Transaction the result of which is to reduce or eliminate a Short Position in the Series of Options involved in such transaction.

“**Closing Sell Transaction**” – means an Exchange Transaction the result of which is to reduce or eliminate a Long Position in the Series of Futures involved in such transaction.

“**Closing Writing Transaction**” – means an Exchange Transaction the result of which is to reduce or eliminate a Long Position in the Series of Options involved in such transaction.

“**Commodity**” – means any agricultural product, forest product, product of the sea, mineral, metal, hydrocarbon fuel, natural gas, electric power, currency or precious stone or other gem, and any goods, article, service, right or interest, or class thereof, whether in the original or processed state.

“**Competent Authority**” – has the meaning attributed thereto in Subsection A-409(3).

“**Confirmation Transmission**” – means the electronic transmission made by a Clearing Member to the Corporation confirming that the Expiry Report detailed in Section B-307 is accepted.

“**Consolidated Activity Report**” – means a daily report listing all Options, Futures and OTCI transactions.

“**Consolidated Affiliate**” – means, with respect to a Clearing Member, an Entity the financial results of which are consolidated with those of such Clearing Member for financial reporting purposes.

“**Contract Specifications**” – means the specifications prescribed by the relevant Exchange with respect to a particular Option or Future.

“**Corporation**” or “**CDCC**” – means Canadian Derivatives Clearing Corporation.

“**CORRA Rate**” – has the meaning attributed thereto in Section D-601.

“**Corresponding CDCC Delivery Requirement**” – has the meaning attributed thereto in Subsection A-804(4).

“**Coupon Income**” – has the meaning attributed thereto in Section D-601.

“**Crown**” – means any of (i) the “Federal Crown”, which means Her Majesty the Queen in right of Canada, (ii) the “BC Crown”, which means Her Majesty the Queen in right of British Columbia, (iii) the “Alberta Crown”, which means Her Majesty the Queen in right of Alberta, (iv) the “Saskatchewan Crown”, which means Her Majesty the Queen in right of Saskatchewan, (v) the “Manitoba Crown”, which means Her Majesty the Queen in right of Manitoba, (vi) the “Ontario Crown”, which means Her Majesty the Queen in right of Ontario, (vii) the “Quebec Crown”, which means Her Majesty the Queen in right of Quebec, (viii) the “NB Crown”, which means Her Majesty the Queen in right of New Brunswick, (ix) the “NS Crown”, which means Her Majesty in right of Nova Scotia, (x) the “PEI Crown”, which means Her Majesty the Queen in right of Prince Edward Island, and (xi) the “Newfoundland Crown”, which means Her Majesty in right of Newfoundland and Labrador.

“**CSA**” – means the Canadian Securities Administrators.

“**Current Rating**” – means, at any particular time with respect to an Entity which has applied for membership as a Limited Clearing Member or which has been admitted as a Limited Clearing Member, as applicable, (i) a rating issued within the last 12 months by a Designated Rating Organization for such Entity, (ii) if the Entity is not the subject of a Current Rating issued by a Designated Rating Organization, a rating issued by a Designated Rating Organization within the last 12 months for the Long-term Obligation of such Entity, or (iii) if neither such Entity itself nor the Long-term Obligation of such Entity is the subject of a Current Rating issued by a Designated Rating Organization, a rating issued by a Designated Rating



Organization within the last 12 months for the Long-term Obligation of such Entity’s Consolidated Affiliate or Plan Sponsor.

“**CUSIP/ISIN**” – are acronyms standing for Committee on Uniform Security Identification Procedures and International Securities Identification Number respectively, herein used to refer to a security identifier assigned by CDS to any security.

“**Daily Settlement Summary Report**” – means the report designated as such by the Corporation as described in the Operations Manual.

“**Debt Securities**” – has the meaning attributed thereto in Subsection A-707(2).

“**Default Auction**” – has the meaning attributed thereto in Section A-609(2).

“**Default Management Period**” – means the period described in Section A-411.

“**Default Management Period End Date**” – means the date described in Section A-411.

“**Default Manual**” – means any manual designated as such by the Corporation, as amended from time to time.

“**Default Value**” – means the value determined by the Calculation Agent in accordance with Subsection A-409(6).

“**Default Waterfall**” – means the sum of the amounts listed under Subsections A-1002(1)(a)(i) to (iii), inclusively and which are available to the Corporation.

“**Delivery Agent**” – means the party through which the Corporation will effect the transfer of the Underlying Interest between the buyer and seller.

“**Delivery Default**” – has the meaning attributed thereto in Subsection A-409(6).

“**Delivery Month**” – means the calendar month in which a Future may be satisfied by making or taking delivery.

“**Delivery Request**” – has the meaning attributed thereto in Subsection A-409(6).

“**Deposit**” – has the meaning attributed thereto in Subsection A-212(1)(a).

“**Depository Agreement**” – means an agreement entered into between the Corporation and an Approved Depository.

“**Depository Receipt**” – means a Put Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit.

“**Derivative Instrument**” – means a financial instrument, the value of which derives from the value of an Underlying Interest. Without limiting the foregoing, this Underlying Interest may be a commodity or a financial instrument such as a stock, a bond, a currency, a stock or economic index or any other asset.

“**Designated Eligibility Rating**” – has the meaning attributed thereto in Subsection A-1B04.



**“Designated Maintenance Rating”** – has the meaning attributed thereto in Section A-1B05.

**“Designated Rating Organization”** or **“DRO”** – means any of DBRS Limited, Fitch, Inc., Moody’s Canada Inc. or Standard & Poor’s Rating Services (Canada), or any other credit rating organization designated as a “designated rating organization” by the CSA under National Instrument 25-101 - *Designated Rating Organizations*, and includes any affiliate of a Designated Rating Organization that issues credit ratings in a foreign jurisdiction and that has been designated as a “DRO affiliate” under the terms of the CSA’s designation of such Designated Rating Organization.

**“Detailed Futures Consolidated Activity Report”** – means the report created by the Corporation on a daily basis reporting the aggregate position in Futures held by a Clearing Member, which also contains the Settlement of Gains and Losses for that Clearing Member for that day.

**“Early Termination Date”** – has the meaning attributed thereto in Subsection A-409(7).

**“Electronic Communication”** – means, in respect of the Corporation, any one or more of the following: the posting of a notice, report or other information on the Corporation’s website, the transmission of a notice, report or other information to a Clearing Member by means of electronic mail and the making available on the Corporation’s computer, in a form accessible to a Clearing Member, of a notice, report or other information.

**“Emergency”** – means a situation materially affecting the Corporation’s operations resulting from (i) riot, war or hostilities between any nations, civil disturbance, acts of God, fire, accidents, strikes, earthquakes, labour disputes, lack of transportation facilities, inability to obtain materials, curtailment of or failure in obtaining sufficient power, gas or fuel, computer malfunction (whether mechanical or through faulty operation), malfunction, unavailability or restriction of the payment, computer or bank wire or transfer system and any other cause of inability that is beyond the reasonable control of the Corporation; (ii) any action taken by Canada, a foreign government, a province, state or local government or body, authority, agency or corporation, and any Exchange, Central Securities Depository, Approved Custodian, Acceptable Marketplace, Market Centre and Delivery Agent; (iii) the bankruptcy or insolvency of any Clearing Member or the imposition of any injunction or other restraint by any government agency, court or arbitrator upon a Clearing Member which may affect the ability of that member to perform its obligations; (iv) any circumstance in which a Clearing Member, a Central Securities Depository, an Approved Custodian, an Approved Depository or any other Entity has failed to perform contracts, is insolvent, or is in such financial or operational condition or is conducting business in such a manner that such Entity cannot be permitted to continue in business without jeopardizing the safety of assets, of any Clearing Member or the Corporation; or (v) any other unusual, unforeseeable or adverse circumstance which is not within the control of the Corporation.

**“End of Day DVP Settlement Time”** – has the meaning attributed thereto in Section D-601.

**“Entity”** – shall include an individual, a legal person, a corporation, a partnership, a trust and an unincorporated organization or association.

**“Escalation Procedure”** – has the meaning attributed thereto in Section 11 of the Operations Manual.

**“European Option”** (or **“European Style Option”**) – means an Option which can be exercised only on its Expiration Date.

“**Event of Default**” – has the meaning attributed thereto in Subsection A-409(2).

“**Exchange**” – means an exchange whose trades are guaranteed and/or cleared by the Corporation.

“**Exchange Transaction**” – means a transaction through the facilities of an Exchange for:

- (a) the purchase or writing of an Option or the reduction or elimination of a Long or Short Position in an Option; or
- (b) the buying or selling of a Future or the reduction or elimination of a Long or Short Position in a Future.

“**Exercise Notice**” – means a notice to the Corporation in the form prescribed by the Corporation, notifying the Corporation of the intent of the Clearing Member executing such notice to exercise an Option.

“**Exercised Position**” – means the position of a Clearing Member in any account in respect of Options which have been exercised by such Clearing Member in such account.

“**Exercise Price**” – means the specified price per unit at which the Underlying Interest may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of an Option. (Sometimes referred to as the Strike Price.)

“**Exercise Settlement Amount**” – means the amount which must be paid by the Corporation to the Clearing Member exercising a put Option or who has been assigned a call Option, against delivery of the Underlying Interest.

“**Exercise Settlement Date**” – means the date prescribed by the relevant Exchange within Contract Specifications of a particular Option.

“**Expiration Date**” – unless otherwise specified, means, in the case of monthly Options, the third Friday of the month and year in which the Option expires, or in the case of weekly Options, any Friday following the listing week which is a Business Day, but which is not an expiration day for any other Options already listed on the same underlying. If any such Friday is not a Business Day, then the Expiration Date will be the first preceding Business Day that is not an expiration day for any other Options already listed on the same underlying.

“**Expiration Time**” – means the time on the Expiration Date, as fixed by the Corporation, at which the Option expires.

“**Expiry Response Screen**” – means a computer display also known as the “**Expiry Workspace**” made available to Clearing Members in connection with Rule B-3.

“**Failed Delivery**” – has the meaning set out (i) in Subsection A-804(1) with respect to the delivery of an Acceptable Security, (ii) in Section B-407 with respect to the delivery of an Underlying Interest of an Option, (iii) in Section C-512 with respect to the delivery of an Underlying Interest of a Future other than an Acceptable Security, or (iv) in Section D-304 with respect to the delivery of an Underlying Interest of an OTCI that is not a Fixed Income Transaction.

“**Failed Payment Against Delivery**” – has the meaning attributed thereto in Section A-806.

“**Failure to Pay**” – has the meaning attributed thereto in Subsection A-409(4).

“**Final Settlement Amount**” – means the amount determined by the Calculation Agent in accordance with Subsection A-409(10).

“**Financial Asset**” – has the meaning assigned to this term by the QSTA.

“**Financial Institution Clearing Member**” – means a Clearing Member that is either:

- (a) a financial services cooperative regulated pursuant to an *Act respecting Financial Services Cooperatives* (Québec), or
- (b) a credit union central or a central cooperative credit society, which is incorporated and regulated under the laws of Canada or under the legislature of a province,

one of whose principal purposes is to provide liquidity support to local credit unions or financial services cooperatives.

“**Firm**” – means a Clearing Member acting for its own account.

“**Firm Account**” – means the account or accounts required to be established for Firm Transactions of the Clearing Members pursuant to Sections B-102, B-103, C-102, C-103, D-102 and D-103.

“**Fixed Income Clearing Member**” – has the meaning attributed thereto in Section D-601.

“**Fixed Income Transaction**” – has the meaning attributed thereto in Section D-601.

“**Forward Curve**” – means the summary representation of the price of a commodity on a forward basis obtained by amalgamating all Reference Prices by tenor as defined in Section D-201.

“**Forward Price**” – means the price extracted from the Forward Curve and used in the daily Mark-to-Market Valuation and margining processes as defined in Section D-202.

“**Future**” – means a contract:

- (a) in the case of a Future settled by delivery of the Underlying Interest, to make or take delivery of a specified quantity and quality, grade or size of an Underlying Interest during a designated future month at a price agreed upon when the contract was entered into on an Exchange; or
- (b) in the case of a Future settled in cash, to pay to or receive from the Corporation the difference between the final settlement price and the trade price pursuant to standardized terms and conditions set forth by the Exchange where the contract is concluded and which is cleared by the Corporation.

“**Future Tear-Up Amount**” – has the meaning attributed thereto in Section A-1008(5).

“**Futures Underlying Interest Deposit**” – means the deposit by an Approved Depository acting on behalf of a Clearing Member or a client thereof of the Underlying Interest of a Future with the Corporation through a Central Securities Depository.

**“Futures Sub-Accounts Consolidated Activity Report”** – means the report created by the Corporation on a daily basis reporting the aggregate position held by a Clearing Member in each of its sub-accounts, which also contains the Settlement of Gains and Losses for that day with respect to each sub-account.

**“Good Deliverable Form”** – Underlying Interests shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of the Underlying Interests in such form would constitute good delivery under the Contract Specifications.

**“Gross Delivery Requirement”** – means the quantity of Acceptable Securities required to be physically delivered through a Central Securities Depository by or to a Clearing Member, expressed on a gross basis, in accordance with Subsection D-606(6).

**“Gross Payment Against Delivery Requirement”** – means the amount required to be paid against physical delivery through a Central Securities Depository by or to a Clearing Member, expressed on a gross basis, in accordance with Subsection D-606(6).

**“Guaranteeing Delivery Agent”** – means a Delivery Agent who bears the responsibility of guaranteeing the acquisition or delivery of the Underlying Interest in the event of a delivery failure.

**“Include”, “Includes” and “Including”** – where used in these Rules, means “include”, “includes” and “including”, in each case, without limitation.

**“Insolvency Event”** – has the meaning attributed thereto in Subsection A-409(3).

**“Insolvency Proceedings”** – has the meaning attributed thereto in Subsection A-409(3).

**“In-the-Money-Option”** – means a call Option with an Exercise Price that is less than the Market Price of the Underlying Interest or a put Option where the Exercise Price exceeds the Market Price of the Underlying Interest.

**“Instrument”** – means a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, but does not include a security.

**“Intra-Day Margin Call”** – means the requirement to deposit supplementary Margin, as determined by the Corporation in accordance with Section A-705, at any time the Corporation deems necessary, and notably at such times as are specified in Section 2 of the Operations Manual.

**“Joint Regulatory Financial Questionnaire and Report”** – means the documents required under the applicable rules of the Investment Industry Regulatory Organization of Canada.

**“LCM RAD Net Gain”** – has the meaning attributed thereto in Section A-1005(3)(c).

**“Limited Clearing Member”** – means an applicant that has been admitted to membership by the Corporation as a “Limited Clearing Member” in accordance with Rule A-1B and which has also been admitted to membership of the Corporation as a Fixed Income Clearing Member.

**“Liquidating Settlement Account”** – means the account created following the default of a Clearing Member to recognize the value of all gains, losses, and expenses due to or from the Non-Conforming Member during the liquidation of positions and Margin Deposits, in accordance with Section A-402.

**“Long Position”** – means a Clearing Member’s interest as:

- (a) the holder of one or more Options of a Series of Options; or
- (b) the buyer of one or more Futures of a Series of Futures; or
- (c) the buyer of an Over-the-Counter Instrument.

**“Long-term Obligation”** – means a senior unsecured debt the original maturity of which is greater than one year.

**“Margin”** – means any and all of the deposits made by or on behalf of a Clearing Member with the Corporation or another person (including a Central Securities Depository or any other type of Securities Intermediary, including an Approved Custodian, a financial institution or the Bank of Canada) required or made pursuant to Rule A-7 Margin Requirements.

**“Margin Deposit”** – means, collectively,

- (a) any and all Securities, Cash, Instruments, cheques, Underlying Interests, Underlying Interest Equivalents, Long Positions and Short Positions;
- (b) any and all of the deposits required or made pursuant to Rule A-6 Clearing Fund Deposits, Rule A-7 Margin Requirements, Rule B-4 Delivery and Payment with Respect to Options Exercised, Rule C-5 Delivery of Underlying Interest of Futures and Rule D-3 Physical Delivery of Underlying Interest on Over-the-Counter Instruments, including Margins, Base Deposits, Additional Deposits, Variable Deposits, Put Escrow Receipts, Call Underlying Interest Deposits, and Futures Underlying Interest Deposits, and any other form of deposit accepted from time to time by the Corporation; and
- (c) any and all Financial Assets transferred to the Corporation through the facilities of a Central Securities Depository or held by an Approved Securities Intermediary;

deposited by or on behalf of a Clearing Member with the Corporation or another person (including a Central Securities Depository or any other type of Securities Intermediary, including an Approved Custodian, a financial institution or the Bank of Canada) for purpose of the performance of the obligations of the Clearing Member under the Rules.

**“Mark-to-Market Valuation”** – means the value determined by the Corporation representing the net asset value of a Transaction or account held by a Clearing Member, as defined in Section D-202.

**“Market Centre”** – means the local facility where the exchange of Underlying Interests occurs.

**“Market Maker”** – means an individual who has been approved by the Exchange on which he trades to trade for his own account or for the account of the Exchange member or non-member by which he is employed or for which he acts as agent in Options or Futures, and may include a futures trader, an options trader, a trader member, a market maker and a market specialist.

“**Market Maker Account**” – means the account or accounts required to be established for Exchange Transactions of the Clearing Member’s Market Makers pursuant to Sections B-102, B-103, C-102 and C-103.

“**Market Price**” – means the aggregate price of the Unit of Trading of the Underlying Interest as determined by the relevant or applicable Exchange or Exchanges.

“**Matured Amounts**” – means any financial cash flows resulting from the expiration of an OTCI.

“**Maturity Date**” – means the date on which final obligations related to a Transaction are executed.

“**Minimum Threshold**” – means the quantity starting from which an OTCI can be cleared.

“**Morning Net DVP Settlement Timeframe**” – has the meaning attributed thereto in Section D-601.

“**Morning Net Payment Against Delivery Requirement**” – has the meaning attributed thereto in Section D-601.

“**Morning Netting Cycle Timeframe**” – has the meaning attributed thereto in Section D-601.

“**Multi-Purpose Account**” – means a Market Maker Account and/or a Netted Client Account.

“**Net Daily Premium**” – when applied to any account of a Clearing Member for any Settlement Time, means the net amount payable to or by the Corporation at such Settlement Time in respect of all Exchange Transactions of the Clearing Member in Options in such account as a purchasing Clearing Member and a writing Clearing Member.

“**Net Daily Settlement**” – means the amount shown on the Daily Settlement Summary Report.

“**Net Delivery Requirement**” – with respect to Acceptable Securities, means the quantity thereof required to be physically delivered through a Central Securities Depository by or to a Clearing Member, expressed on a net basis, in accordance with Paragraph A-801(2)(d); and, with respect to any Underlying Interest of an OTCI that physically settles, other than Acceptable Securities, means the quantity of such Underlying Interest required to be physically delivered through a Delivery Agent by or to a Clearing Member, expressed on a net basis, in accordance with Section D-303.

“**Net Payment Against Delivery Requirement**” – means the amount required to be paid against physical delivery through a Central Securities Depository by or to a Clearing Member, expressed on a net basis, in accordance with Paragraph A-801(2)(c).

“**Netted Client Account**” – means a type of Client Account that requires specific documentation be signed between the Clearing Member and the Corporation, in which the Transactions of a sole Client are held on a net basis.

“**Netting Cut Off Time**” – means, with respect to a Business Day and a Clearing Member, a time specified in the Operations Manual on such Business Day for purposes of determining, in respect of such Clearing Member, all net payment and delivery obligations owing by or to such Clearing Member in accordance with these Rules on such Business Day.

“**Non-Conforming Member**” – has the meaning attributed thereto in Section A-1A04.



“**Non-delivered Assets**” – has the meaning attributed thereto in Subsection A-409(6)(d).

“**Non-Payment of the Cash Settlement Amount following a Delivery Default**” – has the meaning attributed thereto in Subsection A-409(6)(a).

“**Notional Quantity**” – means the size of the OTCI transaction expressed either outright, or in accordance with the number of contracts underlying the OTCI transaction.

“**Office Hours**” – means from 7:00 a.m. (ET) to 6:00 p.m. (ET) on any Business Day.

“**Open Interest**” or “**Open Position**” – means the position of a buyer or a seller of an Option, of a Future or of an OTCI which has not expired.

“**Opening Buy Transaction**” – means an Exchange Transaction the result of which is to create or increase a Long Position in the Series of Futures involved in such transaction.

“**Opening Purchase Transaction**” – means an Exchange Transaction the result of which is to create or increase a Long Position in the Series of Options involved in such Exchange Transaction.

“**Opening Sell Transaction**” – means an Exchange Transaction the result of which is to create or increase a Short Position in the Series of Futures involved in such transaction.

“**Opening Writing Transaction**” – means an Exchange Transaction the result of which is to create or increase a Short Position in the Series of Options involved in such Exchange Transaction.

“**Operations Manual**” – means the manual designated as such by the Corporation and any schedule to the Operations Manual including the Risk Manual, as amended from time to time.

“**Option**” – means a contract which, unless otherwise specified, gives the buying Clearing Member the right to buy (a call) or sell (a put) at a specified quantity of an Underlying Interest at a fixed exercise price during a specified time period and which obligates the writing Clearing Member to sell (a call) or buy (a put) the Underlying Interest, pursuant to standardized terms and conditions set forth by the Exchange where the contract is concluded or to the terms determined by the Corporation as acceptable and which is cleared by the Corporation.

“**Option Price**” – means the price per Option Series, reported by the Exchange at the end of any Business Day.

“**Option Tear-Up Amount**” – has the meaning attributed thereto in Section A-1008(5).

“**Option Type**” – means a put Option or a call Option.

“**Options Daily Transaction Report**” – means a report created by the Corporation providing the net premium payable/receivable.

“**OTCI Option Price**” – means the price per Option Series determined by the Corporation in accordance with the methodology set out in the Risk Manual.

**“Out-of-the-Money Option”** – means a call Option with an Exercise Price that exceeds the Market Price of the Underlying Interest or a put Option where the Exercise Price is less than the Market Price of the Underlying Interest.

**“Over-the-Counter Instrument”** or **“OTCI”** – means any bilaterally negotiated transactions, including Fixed Income Transactions, as well as any transactions entered into on any Acceptable Marketplaces.

**“Payment Default”** – has the meaning attributed thereto in Subsection A-409(5).

**“Payment Request”** – has the meaning attributed thereto in Subsection A-409(5).

**“Pending Payment Against Delivery Requirements”** – has the meaning attributed thereto in Section D-601.

**“Pending Delivery Requirements”** – has the meaning attributed thereto in Section D-601.

**“Plan Sponsor”** – means an Entity that established and maintains a registered pension plan.

**“Postponed Payment Obligation”** – with respect to the Corporation, means the amount by which its Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against delivery of Acceptable Securities or its Gross Payment Against Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in favour of a Provider of Securities has been reduced as a result of the Provider of Securities’ failure to deliver Acceptable Securities on the Business Day they were due by the End of Day DVP Settlement Time and the payment by the Corporation of such reduction has been postponed until full delivery by the Provider of Securities in accordance with Subsection A-804(1); and with respect to a Clearing Member who is a Receiver of Securities, means the amount by which its Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against delivery of Acceptable Securities or its Gross Payment Against Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in favour of the Corporation has been reduced as a result of the Corporation’s failure to deliver Acceptable Securities on the Business Day they were due by the End of Day DVP Settlement Time and the payment by such Clearing Member of such reduction has been postponed until full delivery by the Corporation in accordance with Subsection A-804(2).

**“President”** – means the person appointed by the Board as chief executive officer and chief administration officer of the Corporation.

**“Product Type”** – means the attribute of an OTCI which describes the rights and obligations of the counterparties involved in the transaction insofar as cash flows are concerned.

**“Provider of Securities”** – means a Clearing Member who owes to the Corporation a Net Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(3) or Paragraph A-801(2)(d) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(6), as the case may be.

**“Put Escrow Receipt”** – means a receipt, in a form that is acceptable to the Corporation, issued by an Approved Depository certifying that it holds Cash in the amount of the Exercise Price of a put Option on behalf of a Clearing Member or a client thereof, in trust for the Corporation.



“**Qualified Amount**” – means an amount which may be subject to the Reduced Amounts Distribution power, as defined under Section A-1005(3).

“**QSTA**” means the *Act respecting the transfer of securities and the establishment of security entitlements* (Quebec).

“**RAD Net Gain**” – has the meaning attributed thereto in Section A-1005(3)(b).

“**Receiver of Securities**” – means a Clearing Member who is owed by the Corporation a Net Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(3) or Paragraph A-801(2)(d) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(6), as the case may be.

“**Recovery Event**” – has the meaning attributed thereto in Section A-1002(1).

“**Recovery Loss Cash Payment**” – means the payment which may be required by the Corporation pursuant to Section A-1006.

“**Recovery Loss**” or “**Recovery Losses**” – has the meaning attributed thereto in Section A-1004.

“**Recovery Power**” – has the meaning attributed thereto in Section A-1001(1).

“**Recovery Process**” – has the meaning attributed thereto in Section A-1003.

“**Reduced Amounts Distribution Period**” – means the period during which the Corporation exercises the Reduced Amounts Distribution power, as defined under Section A-1005(2).

“**Reduced Amounts Distribution**” or “**RAD**” – means the Recovery Power defined under Section A-1005(1).

“**Reference Crown**” – means, with respect to an Entity that is a Crown Corporation, a mandatory of the Crown, an agency of the Crown or a public body of the Crown, the Crown which has established the Entity or under whose authority the Entity is acting.

“**Reference Price**” – means the price determined by the Corporation in accordance with Section D-201.

“**Registry**” – means any registry designated by the Corporation which, for the purposes of clearing Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with physical settlement, has been established in order to ensure the accurate accounting of holding, transfer, acquisition, surrender, cancellation and replacement of the Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units.

“**Regulatory Body**” - with reference to a Financial Institution Clearing Member, means the Office of the Superintendent of Financial Institutions, association or other body, organization or agency, whether governmental, professional, self-regulatory or otherwise, having jurisdiction over that Clearing Member or over any part of the business carried on by it.

“**Replacement Eligibility Metric**” – has the meaning attributed thereto in Subsection A-1B04(g).

“**Replacement Maintenance Metric**” – has the meaning attributed thereto in Subsection A-1B04(g).

“**Replacement Metric**” – has the meaning attributed thereto in Subsection A-1B04(g).

“**Retained Amount**” – means an amount retained, collected, accounted for, or otherwise set aside by the Corporation in the exercise of its Reduced Amounts Distribution power, whether converted into cash or otherwise, as defined under Section A-1005.

“**Risk Limits**” – refers to the set of risk management limits imposed by the Corporation on Clearing Members’ clearing activities as updated from time to time by the Corporation.

“**Risk Manual**” – means the manual designated as such by the Corporation and any schedule to the Risk Manual including the Default Manual, as amended from time to time.

“**Rolling Delivery Obligation**” – with respect to a Clearing Member who is a Provider of Securities, means the quantity of a given Acceptable Security that it has failed to deliver to the Corporation under an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities under Subsection A-801(5) or a Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time under Subsection D-606(6), as the case may be, on the Business Day it was due by the End of Day DVP Settlement Time, which is rolled into the calculation of the next Business Day’s Net Delivery Requirement (and the Net Delivery Requirement of each subsequent Business Day) of such Clearing Member, in accordance with, and until such time as set out under, Subsection A-804(1); and with respect to the Corporation and a Clearing Member who is a Receiver of Securities, means the quantity of a given Acceptable Security that the Corporation has failed to deliver to such Clearing Member under an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities under Subsection A-801(5) or a Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time under Subsection D-606(6), as the case may be, on the Business Day it was due by the End of Day DVP Settlement Time (as a direct consequence of a Provider of Securities’ failure to deliver all or a part of its Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities or its Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in respect of such Acceptable Security on such Business Day) which is rolled into the calculation of the Corporation’s next Business Day’s Net Delivery Requirement (and the Net Delivery Requirement of each subsequent Business Day) in favour of such Clearing Member, in accordance with, and until such time as set out under, Subsection A-804(2).

“**Rules**” or “**these Rules**” – means the Rules of the Corporation and the Operations Manual, as any such rules, and manual may from time to time be amended, changed, supplemented or replaced in whole or in part.

“**SRO Clearing Member**” – means a Clearing Member that is within the audit jurisdiction of the Investment Industry Regulatory Organization of Canada.

“**Same Day Transaction**” – has the meaning attributed thereto in Section D-601.

“**Securities Intermediary**” – has the meaning assigned to this term by the QSTA.

“**Security**” – means a document that is:

- (a) issued in bearer, order or registered form;

- (b) of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment;
- (c) one of a class or series or by its terms is divisible into a class or series of documents; and
- (d) evidence of a share, participation or other interest in property or in an enterprise or is evidence of an obligation of the issuer;

and includes such a document, not evidenced by a certificate, the issue and any transfer of which are registered or recorded in records maintained for that purpose by or on behalf of the issuer.

**“Series of Futures”** – means all Futures of the same class covering the same quantity of an Underlying Interest and having the same delivery month.

**“Series of Options”** – means all Options of the same class, the same type, covering the same quantity of an Underlying Interest and having the same Exercise Price and Expiration Date.

**“Settlement Accounts”** – has the meaning attributed thereto in Section A-217.

**“Settlement Agent”** – has the meaning attributed thereto in Section A-1A01(h).

**“Settlement Amount”** – means the amount calculated in accordance with these Rules payable to the delivering Clearing Member upon delivery of or cash settlement for the Underlying Interest in respect of a Transaction.

**“Settlement of Gains and Losses”** – means the settlement with the Corporation of the gains and losses on Open Positions in Futures pursuant to Section C-302.

**“Settlement Price”** – means the official daily closing price of a Future, as determined in accordance with Section C-301.

**“Settlement Time”** – means, with respect to a particular Transaction and a particular Business Day, the time on such Business Day as established by the Corporation in the Operations Manual and if no Business Day is specified, the time on the next Business Day following the trade day, calculation date or Coupon Payment Date, as applicable, as established by the Corporation in the Operations Manual, by which time Settlement of Gains and Losses, premium payments, all Margin requirements and all other payments required in respect of such Business Day, trade day, calculation date or Coupon Payment Date must be submitted to the Corporation.

**“Short Position”** – means a Clearing Member’s obligation as:

- (a) the writer of one or more Options of a Series of Options; or
- (b) the seller of one or more Futures in a Series of Futures; or
- (c) the seller of an Over-the-Counter Instrument.

“**Spread Position**” means:

- (a) the situation in which there is carried in a Clearing Member’s Client Account both an Option in the Short Position and an Option of the same Class of Options in the Long Position; or
- (b) the situation in which there is carried in a Clearing Member’s Client Account both a Long Position and a Short Position in Futures.

“**Straddle Position**” – means an equal number of call and put Options covering the same Underlying Interest and having the same Exercise Price and Expiration Date.

“**Style of Options**” – means the classification of an Option as either an American Option or a European Option. (Parts A and B of these Rules shall apply to both Styles of Options unless a specific Style of Option is designated).

“**Submission Cut-Off Time**” – has the meaning attributed thereto in Section D-601.

“**Supplemental Liquidity Contributions**” – means any and all of the contributions required or made pursuant to Rule A-6A Supplemental Liquidity Fund.

“**Supplemental Liquidity Fund**” – means the fund established pursuant to Rule A-6A Supplemental Liquidity Fund.

“**Tear-Up Value**” – has the meaning attributed thereto in Section A-1008(3).

“**Tender Notice**” – means a notice to the Corporation in the form prescribed by the Corporation, notifying the Corporation of the intent of the Clearing Member executing such notice to deliver the Underlying Interest of the Future.

“**Termination Value**” – means the amount determined by the Calculation Agent in accordance with Subsection A-409(10)(e).

“**Trade Confirmation**” – means the official document issued to a Clearing Member which details the attributes of the OTCI transaction and which signals the acceptance of the transaction for clearing by the Corporation.

“**Trade Price**” – means the price agreed upon for the Future when the contract is entered into on an Exchange.

“**Transactions**” – means all Futures, Options and Over-the-Counter Instruments which are determined by the Corporation as acceptable for clearing.

“**Transaction Value**” – has the meaning attributed thereto in Subsection A-409(10)(b).

“**Type of Options**” – means the classification of an Option as either a “put” or a “call”.

“**Uncovered Residual Credit Risk**” or “**URRURCR**” – means the amount of risk determined by the Corporation to be uncovered by the Base Initial Margin model set in accordance with the Risk Manual, resulting from an estimation of the loss that the Corporation would face in extreme but plausible market



conditions done through rigorous stress tests. The ~~URR~~URCR represents the largest uncovered risk from a Clearing Member and its Affiliates (excluding Limited Clearing Members).

“**Underlying Interest**” – means an asset which underlies and determines the value of a Derivative Instrument or of an OTCI. The Underlying Interest may be a commodity or a financial instrument such as a stock, a bond, a currency, a stock or economic index or any other asset.

“**Underlying Interest Equivalent**” – means the Securities specified in Section A-706.

“**Unit of Trading**” – in respect of any Series of Futures and Series of Options or any OTCI, means the number of units of the Underlying Interest designated by the Corporation and the Exchange on which the Derivative Instrument is traded (as applicable) as being the number of units subject to a single Future or Option contract.

“**Valued Securities**” – has the meaning attributed thereto in Subsection A-707(3).

“**Variable Deposit**” – means the Clearing Fund deposit which may be required in addition to a Base Deposit pursuant to Section A-603.

“**Voluntary Contract Tear-Up**” – means the Recovery Power defined under Section A-1008(1).

**RULE A-1A  
MEMBERSHIP IN THE CORPORATION**

**Section A-1A01  
ELIGIBILITY FOR MEMBERSHIP**

[...]

**Section A-1A02  
STANDARDS OF MEMBERSHIP**

Every applicant to become a Clearing Member must meet such standards as may be adopted from time to time by the Board, including the following:

- (a) the applicant must meet the minimum financial resilience requirements then in effect, in accordance with Section A-301 or, in the case of an applicant to become a Limited Clearing Member, the minimum financial resilience requirements for admission as a Limited Clearing Member then in effect, in accordance with Section A-1B04;
- (b) the applicant must be engaged, or propose to engage, in the clearance of Options or Futures which are the subject of Exchange Transactions or in the clearance of Fixed Income Transactions or other OTCI transactions through the facilities of the Corporation;
- (c) the applicant shall demonstrate to the Corporation that it maintains adequate operations facilities and staff and has sufficient and competent personnel for the expeditious and orderly transactions of business with the Corporation and other Clearing Members, and to meet the requirements of these Rules; and
- (d) unless the applicable Entity is applying to become a Limited Clearing Member, the applicant has deposited with the Corporation its initial deposit with the Clearing Fund in the amount and at the time required by the Rules and has signed and delivered to the Corporation an agreement in such form as the Board shall require; and
- (e) unless the applicable Entity is applying to become a Limited Clearing Member, the applicant has provided the Corporation with its initial Supplemental Liquidity Contributions to the Supplemental Liquidity Fund in the amount and at the time required by the Rules and the Risk Manual.

### **Section A-1A03 ADMISSION PROCEDURE**

[...]

### **Section A-1A04 NON-CONFORMING MEMBER**

- (1) A Clearing Member who is or may become insolvent or unable to meet its obligations shall immediately notify the Corporation of its situation by telephone. Such notice shall be confirmed by the Clearing Member by notice in writing to the Corporation sent by facsimile transmission within the next business day.
- (2) A Clearing Member who, in the judgement of the Corporation or pursuant to notification to the Corporation under Subsection (1), is or may be insolvent or unable to meet its obligations, becomes a Non-Conforming Member.
- (3) A Limited Clearing Member who does not meet the minimum ongoing financial resilience requirements prescribed in Section A-1B05 shall automatically be determined by the Corporation to be a Non-Conforming Member.
- (4) Without limiting the application of this Rule, any one of the following events, whether actual or anticipated by the Corporation, constitutes a reasonable ground for the Corporation to determine in its judgement that a Clearing Member is a Non-Conforming Member:
  - (a) breach of any term, eligibility, qualification, standard or condition of the Application for Membership or any other violation of these Rules;
  - (b) breach of a rule of an Exchange, a Central Securities Depository, an applicable self-regulatory organization or regulatory agency, or of any other recognized, designated or foreign investment exchange or clearing agency which in the Corporation's reasonable determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation;
  - (c) refusal of an application for membership, breach of the terms of membership or contractual agreement, or suspension, termination or expulsion from membership of an Exchange, a Central Securities Depository, an applicable self-regulatory organization, Market Centres and/or Delivery Agents, the Registry, or any other recognized, designated or foreign investment exchange or clearing agency;
  - (d) refusal of a licence, breach of the terms of its licence or withdrawal or suspension of such licence by a regulatory agency which in the Corporation's reasonable determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation;
  - (e) contemplated, threatened or actual action by a Crown, a regulatory agency, a court of justice or an administrative authority against or in respect of the Clearing Member under any provision or process of law or regulation which in the Corporation's reasonable



determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation;

- (f) default in a payment, deposit, contribution, delivery or acceptance of delivery required or payable under the Application for Membership or these Rules;
  - (g) an order, arrangement, proposal, distress or execution is presented, made or approved in any jurisdiction to or by a court of competent jurisdiction, a Crown or a regulatory agency, relating to the termination, bankruptcy, insolvency or winding up of the Clearing Member or the appointment of an administrator, receiver manager, trustee, or person with similar power in connection with the Clearing Member;
  - (h) the determination on reasonable grounds by the Corporation that the Clearing Member is in such financial or operating condition that its continuation as a Clearing Member in good standing would jeopardize the interests of the Corporation or other Clearing Members;
  - (i) any of the conditions set out in paragraphs (a) to (h) applies to an Affiliate of a Clearing Member, having, in the reasonable judgement of the Corporation, a material impact on the financial condition of the Clearing Member; or
  - (j) such other event which in the Board's or, if time does not permit action by the Board, the Corporation's, reasonable determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation.
- (5) If a Clearing Member is late in making a payment at Settlement Time, the Corporation shall impose fines and may deem that Clearing Member a Non-Conforming Member, in accordance with Section 7 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.
- (6) Notwithstanding anything to the contrary contained in Subsection A-1A04(4), if (a) a Clearing Member is in default in relation to any payment, deposit, delivery or acceptance of delivery required or payable under these Rules, (b) the Escalation Procedure is applicable in connection with such default, and (c) such Clearing Member has duly notified the Corporation under the Escalation Procedure in accordance with Section 11 of the Operations Manual, the Corporation may, subject to complying with the Escalation Procedure and providing prior notification to the Bank of Canada, determine that such Clearing Member is a Non-Conforming Member.
- (7) Except where the Corporation has been notified under Subsection (1), the Corporation shall, in writing or by telephone, notify a Clearing Member that it has become a Non-Conforming Member. Before doing so, the Corporation will enter into consultations with the Bank of Canada with respect to a Clearing Member who may be affected by an order under subsection 39.13(1) of the *Canada Deposit Insurance Corporation Act* or the Affiliates of such Clearing Member. The Corporation may also, in its sole discretion, notify the Board, all Clearing Members, the Exchanges, the appropriate self-regulatory organization or regulatory agency of which the Clearing Member is a member, the regulatory agency of the Corporation, and such other Entities as the Corporation may consider appropriate.



- (8) The Corporation can reinstate the status of a Non-Conforming Member to a Clearing Member in good standing if the Clearing Member resolves, to the satisfaction of the Corporation, the issue(s) which led to its Non-Conforming Member status.

[...]

**RULE A-1B  
LIMITED CLEARING MEMBERS MEMBERSHIP**

**Section A-1B01  
LIMITED CLEARING MEMBERS CORE PRINCIPLES**

(1) No Clearing Fund Contribution

Subject to applicable law, a Limited Clearing Member shall not be required to make a deposit or contribution to the Clearing Fund or to provide any other type of collateral or Margin Deposit to the Corporation which could be realized upon, applied or used by the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation.

(2) No Obligation Resulting From the Default of Another Clearing Member

Subject to applicable law and Section A-1005, Limited Clearing Members shall not have any obligation to the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation.

(3) No Reduction of Corporation's Obligations

Subject to applicable law and Section A-1005, the Corporation shall not have the right to reduce or terminate any of its obligations to any Limited Clearing Member in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation.

For further clarity, no Limited Clearing Member will be subject to any Recovery Power which may be available to the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation or in connection with a Recovery Process, other than the exercise of the Corporation's Reduced Amounts Distribution power pursuant to Section A-1005. This shall not preclude a Limited Clearing Member to voluntarily participate in any (i) auction held by the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation or (ii) Recovery Power in accordance with the Rules.

(4) Specific Margin Requirements

A Limited Clearing Member shall be required to deposit Margin in accordance with Section A-1B08 and the Operations Manual.

(5) No Supplemental Liquidity Fund Contribution

Subject to applicable law, a Limited Clearing Member shall not be required to make Supplemental Liquidity Contributions to the Supplemental Liquidity Fund.

[...]

**RULE A-2  
MISCELLANEOUS REQUIREMENTS**

[...]

**RULE A-3  
FINANCIAL RESILIENCE REQUIREMENTS**

[...]



## **RULE A-4 ENFORCEMENT**

[...]



**RULE A-5  
DISCIPLINARY PROCEEDINGS**

[...].

**RULE A-6  
CLEARING FUND DEPOSITS**

**Section A-601  
CLEARING FUND MAINTENANCE AND PURPOSE**

[...]

**Section A-602  
AMOUNT OF CLEARING FUNDS**

[...]

**Section A-603  
AMOUNT OF DEPOSIT**

- (1) The required deposit of each Clearing Member to the Clearing Fund shall be an amount equal to the total of:
- (a) an Options Clearing Base Deposit, if the Clearing Member has been accepted to clear Options;
  - (b) a Futures Clearing Base Deposit, if the Clearing Member has been accepted to clear Futures;
  - (c) an OTCI Clearing Base Deposit, if the Clearing Member has been accepted to clear OTCI transactions other than Fixed Income Transactions;
  - (d) a Fixed Income Transactions Clearing Base Deposit, if the Clearing Member has been accepted to clear Fixed Income Transactions; and
  - (e) a Variable Deposit equal to the amount by which (i) the Clearing Member's contribution, in accordance with the methodology set out in the Risk Manual, to the Corporation's Uncovered Residual Credit Risk exceeds (ii) such Clearing Member's Base Deposits.
- (2) Within a calendar month, if the Corporation determines that an increase to the Variable Deposit is necessary to protect its financial integrity, the Corporation will notify with a Clearing Fund statement the concerned Clearing Member(s) which shall increase in the determined amount and approved form its contribution to the Clearing Fund. The contribution to the Clearing Fund by the concerned Clearing Member(s) must be received by the Corporation on the following Business Day (T+1) by 10 a.m. (no same-day contribution).

[...]

**RULE A-6A**  
**SUPPLEMENTAL LIQUIDITY FUND**

**Section A-6A01**  
**SUPPLEMENTAL LIQUIDITY FUND MAINTENANCE AND PURPOSE**

- (1) The Corporation shall establish a Supplemental Liquidity Fund relating to all Transactions cleared by the Corporation. Each Clearing Member, except Limited Clearing Members, admitted to clear Transactions at the Corporation shall maintain contributions in the Supplemental Liquidity Fund of the amounts from time to time required by the Corporation at its discretion, and determined as set forth in the Risk Manual. The Supplemental Liquidity Fund shall be used for the purposes set out in Section A-6A07.
- (2) The Supplemental Liquidity Fund is constituted of the aggregate amount of the Supplemental Liquidity Contributions required by each Clearing Member at the close of each calendar month. Unless otherwise specified, the Supplement Liquidity Fund shall not include any contributions made in excess of the amount of the Supplemental Liquidity Contributions required by each Clearing Member.
- (3) This Rule A-6A is not applicable to Limited Clearing Members.

**Section A-6A02**  
**AMOUNT OF SUPPLEMENTAL LIQUIDITY CONTRIBUTIONS**

Within a calendar month, if the Corporation determines that an increase to the Supplemental Liquidity Contributions is necessary to protect the Corporation from any existing or potential liquidity risks, the Corporation will notify with a Supplemental Liquidity Fund statement the concerned Clearing Member which shall increase in the determined amount its Supplemental Liquidity Contributions to the Supplemental Liquidity Fund. The Supplemental Liquidity Contribution to the Supplemental Liquidity Fund by the concerned Clearing Member must be received by the Corporation on the following Business Day (T+1) by 10 a.m. (no same-day contribution).

**Section A-6A03**  
**SUPPLEMENTAL LIQUIDITY FUND STATEMENT**

On the first Business Day of each calendar month, the Corporation shall issue to each Clearing Member a Supplemental Liquidity Fund statement that shall list the current amount of such Clearing Member's Supplemental Liquidity Contributions to the Supplemental Liquidity Fund and the amount of contributions required of such Clearing Member. Any surplus over and above the amount required or any deficit to be satisfied will also be shown. A Supplemental Liquidity Fund statement will also be issued intra-monthly if an increase to the Supplemental Liquidity Fund is necessary. The Supplemental Liquidity Contributions required by the Clearing Member to satisfy any deficit must be received by the Corporation on the following Business Day (T+1) by 10 a.m. (no same-day contribution).



**Section A-6A04**  
**ADDITIONAL SUPPLEMENTAL LIQUIDITY CONTRIBUTIONS**

Whenever a Clearing Member's Supplemental Liquidity Fund statement shows a deficit, such Clearing Member shall satisfy the deficit by a Supplemental Liquidity Contributions to the Corporation on the Business Day (T+1) following the issuance of the Supplemental Liquidity Fund statement, by 10 a.m. (no same-day contribution).

**Section A-6A05**  
**WITHDRAWALS**

In the event that the Supplemental Liquidity Fund statement of a Clearing Member shows a surplus, the Clearing Member may request the withdrawal of such surplus by submitting a withdrawal request in the form and time prescribed by the Corporation.

**Section A-6A06**  
**FORM OF SUPPLEMENTAL LIQUIDITY CONTRIBUTIONS**

- (1) Supplemental Liquidity Contributions to the Supplemental Liquidity Fund shall be in the form of Cash. Contributions in Cash shall be transferred by irrevocable funds transfer to the Corporation and may, from time to time, be partially or wholly invested by the Corporation for its account. To the extent not so invested, they shall be deposited to the credit of the Corporation in such financial institutions as the Board may select. The Corporation may determine from time to time to either pay interest or charge negative interest on such invested or deposited Cash. The Corporation publishes on its website information on the interest net of administration costs to be distributed to the Clearing Members, on the calculation of interest rates or negative interest rates as well as on any changes to the applicable calculation method of interest rates due to extraordinary market conditions or market disruption. Such information will be amended from time to time by the Corporation.
- (2) Any Supplemental Liquidity Fund Contributions shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Cash.

**Section A-6A07**  
**APPLICATION OF SUPPLEMENTAL LIQUIDITY FUND**

- (1) The Supplemental Liquidity Fund can be used by the Corporation to meet any liquidity obligations or exposures (such as mark-to market payments and settlements) suffered by the Corporation at any time, whether arising during or resulting from a Default Management Period or not; provided, however, that the Supplemental Liquidity Fund cannot be used in the allocation of, or for the payment of, residual credit losses or for general corporate purposes. Subject to the provisions of Subsection A-6A07(2), all amounts from the Supplemental Liquidity Fund used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund as soon as practicable.

- (2) Without limiting the generality of Subsection A-6A07(1), the Corporation shall be authorized to use a suspended Clearing Member's Supplemental Liquidity Contributions as well as the Supplemental Liquidity Contributions required of all other Clearing Members in order for the Corporation to meet any liquidity obligations or exposure suffered by the Corporation during a Default Management Period. Subject to provisions of the Default Manual, all amounts from the Supplemental Liquidity Fund used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund after the Default Management Period had ended, unless such amounts represent the Supplemental Liquidity Contributions of the suspended Clearing Member and were allocated by the Corporation to cover credit losses as part of the Default Waterfall.
- (3) Whenever the Corporation wishes to use any amounts from the Supplemental Liquidity Fund, the Corporation shall promptly notify each Clearing Member of the amount to be used and the reasons therefor.
- (4) Without limiting the rights of the parties under Section A-6A05 and Subsections A-6A07(1) and (2), at the sole discretion of the Corporation, all Cash deposited with the Corporation as Supplemental Liquidity Contributions by any and all Clearing Members may be pledged, repledged, hypothecated, rehypothecated or transferred by the Corporation as security for, or in connection with, the Corporation's own obligations to any person incurred in order to obtain liquidity for the purpose of assisting the Corporation to honour any liquidity obligations or exposure on a timely basis. The Corporation shall be deemed to continue to hold all Cash contributed to the Supplemental Liquidity Fund, regardless of whether the Corporation has exercised its rights under this Subsection A-6A07(4).
- (5) Without limiting the rights of the Corporation under Subsections A-6A07(2) and A-6A07(4), during a single Default Management Period, the Corporation shall not, with respect to each Clearing Member that has not been suspended, apply more than 200% of the Supplemental Liquidity Contributions required by such Clearing Member as of the date of the commencement of the Default Management Period to handle any liquidity obligations or exposure it may encounter during the Default Management Period.
- (6) Each Clearing Member grants to the Corporation a first ranking pledge and hypothec over all Supplemental Liquidity Contributions. This pledge shall secure the payment of any liquidity obligations or exposure that the Corporation may suffer from time to time. The Clearing Member shall execute and deliver (or cause to be executed and delivered) such documents as the Corporation may from time to time request for the purpose of confirming or perfecting the pledge granted to the Corporation by the Clearing Member; provided that the failure by the Corporation to request or by the Clearing Member to execute and deliver (or cause to be executed and delivered) such documents shall not limit the effectiveness of the pledge in favour of the Corporation.
- (7) The Corporation may at its sole discretion grant a pledge or a hypothec over or transfer all property provided as Supplemental Liquidity Contributions by a Clearing Member which has been suspended, as security for, or in connection with, the Corporation's own obligations to any person incurred in order to obtain liquidity for the purpose of assisting the Corporation to honour its obligations on a timely basis further to the designation by the Corporation of such Clearing Member as being a suspended Clearing Member. In such circumstances, the Corporation shall grant a pledge or a hypothec over or transfer such Clearing Member's Supplemental Liquidity Contributions before doing so with respect to the Supplemental Liquidity Contributions of other Clearing Members. The Corporation shall be deemed to continue to hold all Supplemental Liquidity

Contributions regardless of whether the Corporation has exercised its rights under this Subsection A-6A07(7).

### **Section A-6A08**

#### **MAKING GOOD ON CHARGES TO SUPPLEMENTAL LIQUIDITY FUND**

Whenever the Corporation uses Supplemental Liquidity Contributions from the Clearing Members that have not been suspended, in accordance with Subsection A-6A07(2), such Clearing Members shall be liable to make good the deficiency, if any, in their contributions resulting from such use on the Business Day following the date that the Supplemental Liquidity Contributions are used (T+1), by 10 a.m. (no same-day contribution), unless the Corporation issues a notice specifying a later date. Notwithstanding the foregoing, Clearing Members will not be liable to make good during a single Default Management Period more than an additional 200% of the amount of their Supplemental Liquidity Contributions required at the beginning of the Default Management Period as prescribed by the Rules.

### **Section A-6A09**

#### **CONTRIBUTIONS REFUND**

Thirty days after a Clearing Member has ceased to be a member of the Corporation in accordance with Section A-1A09, the Corporation shall authorize such former member to withdraw its Supplemental Liquidity Contributions.

**RULE A-7  
MARGIN REQUIREMENTS**

[...]



**RULE A-8  
DAILY SETTLEMENT**

[...]

**RULE A-9**  
**ADJUSTMENTS IN CONTRACT TERMS**

[...]

## RULE A-10 RECOVERY PROCESS

### Section A-1001 RECOVERY POWERS

(1) [...]

### Section A-1002 DECLARATION OF RECOVERY PROCESS

- (1) During a Default Management Period, the Corporation may declare the commencement of a Recovery Process, subject to approval by the Board, upon the occurrence of either of the following events (each, “**Recovery Event**”):
- (a) the Corporation, acting reasonably, determines that its Recovery Losses in connection with the suspension of the applicable Clearing Member may exceed the sum of the following amounts (which shall collectively be referred to as the “**Default Waterfall**”):
    - (i) the suspended Clearing Member’s Margin Deposit (including, without limitation, deposits required or made as Margin and Clearing Fund) and Supplemental Liquidity Contributions;
    - (ii) the Corporation’s own capital resources specifically set aside for such purpose;
    - (iii) 200% of the aggregate value of all Clearing Fund deposits required at the beginning of the Default Management Period of the Clearing Members which have not been suspended during the Default Management Period; or
  - (b) after the exercise by the Corporation of its rights and remedies set out in Rule A-4 in connection with the suspension of the applicable Clearing Member, the Corporation reasonably determines that it has been, or will likely be, unable to close-out all the positions of the suspended Clearing Member.
- (2) Upon the declaration of the commencement of a Recovery Process, the Corporation will notify all Clearing Members, the Exchanges, any regulatory agency having oversight over the Corporation, the Bank of Canada and any such other Entities as the Corporation may consider appropriate.

[...]



**CANADIAN DERIVATIVES CLEARING CORPORATION  
CORPORATION CANADIENNE DE COMPENSATION DE PRODUITS DÉRIVÉS**

**OPERATIONS MANUAL**

~~JUNE 12, 2020~~





Section : X - X

## CDCC-REPORTS

### **ON-LINE ACCESS**

Each Clearing Member must be connected to the CDCC Clearing Application using its PC terminals to perform a variety of functions. (Clearing Members must supply their own PC terminals and Internet connection, at their own cost).

All instructions (corrections, Open Position changes, Position Transfers, Deposits, [contributions](#), withdrawals, and submission of Exercise Notices and Tender Notices) must be entered on-line.

The CDCC Clearing Application allows Clearing Members to view their current information throughout the day electronically (except during scheduled maintenance or unforeseen outages). In addition, Clearing Members can download their reports after 7:00 p.m. every day using the FTP Download function.

Should a Clearing Member not have electronic access (due to technical issues) to the CDCC Clearing Application during Office Hours, CDCC can perform instructions on behalf of the Clearing Member. This requires a phone call from the Clearing Member to CDCC, along with the appropriate form faxed or scanned and e-mailed to CDCC. Such form must be authorized with the approved Clearing Member's stamp.

With respect to operational activity related to Options with an Expiration Date on Expiry Friday, CDCC staff members are on-site from 7:00 a.m. to fifteen (15) minutes after delivery of the Options Exercised and Assigned Report (MT02).

## CDCC-REPORTS

### REPORT REFERENCES

Clearing Member reports contain the following information:

Transactions	Reports relating to Clearing Member's Transactions such as trade entries, trade corrections, trade rejections and exercises/tenders. These reports start with the alpha code MT.
Fees	Report relating to the collection of service fees from the Clearing Member. These reports start with the alpha code MB.
Settlements	Reports relating to Premiums, Settlement of Gains and Losses, and Margin. These reports start with the alpha code MS.
Assets	Reports relating to the maintenance of Clearing Member's assets as well as depository information. These reports start with the alpha code MA.
Delivery	Reports relating to delivery obligations and unsettled deliveries. These reports start with the alpha code MD.
Positions	Reports relating to positions held by Clearing Members separately for Futures, Options, OTCI and Fixed Income Transactions. These reports start with the alpha code MP.
Expiry	Reports used by Clearing Members to verify expiring positions and automatic exercises. These reports start with the alpha code MX.
Risk	Reports relating to risk management. These reports start with the alpha code MR.

**CDCC-REPORTS**

**REPORT DETAILS**

Report Code	Report Name	Report Description
<b>Daily:</b>		
MA01	Deposits and Withdrawals Report	Details on Clearing Member's deposits and withdrawals for Margin Fund Account, Clearing Fund and (Fixed Income) Variation Margin Account. (Note: will find the letters D, W and PW next to the date of deposit)
MD01	Options Unsettled Delivery Report	Lists unsettled deliveries for Options.
MD51	Futures Unsettled Delivery Report	Lists unsettled deliveries for Futures (does not include Share Futures) - the issue and number of Futures contracts which must be delivered - the account to which the delivery has been assigned and the opposite Clearing Member - the Settlement Amount and settlement date
MD52	Share Futures Unsettled Delivery Report	Lists unsettled deliveries for Share Futures (SF) - the issue and number of SF contracts which must be delivered - the account to which the delivery has been assigned and the opposite Clearing Member - the Settlement Amount and settlement date
MD70	Fixed Income Net Settlement Delivery Status Report	Status of Clearing Member's settlement activity at the Central Securities Depository with respect to Acceptable Securities on that day.
MD71	Settlement Obligation Calculated Amounts Reports	Provide information on each Settlement Instruction produced at the exit of the Intra-Day netting that is being considered in the PITSO.
MD72	Settlement Obligation Fulfillment	Provide the different settlement instruction status changes during the PITSO. The report is separated in three sections: Settlement, Pending Party At Fault and Cancelled.
MP01	Options Open Positions Report	Lists the Clearing Member's Open Positions for puts and calls.
MP02	Sub-Account Options Open Positions Report	Lists all Options Open Positions in sub-accounts of the Clearing Member's Client Account(s), Firm Account(s) and Multi-Purpose Account(s).
MP21	Contract Adjustment Report	Lists the Clearing Member's Long Positions and Short Positions before and after the relevant contract adjustment.
MP51	Futures Open Positions Report	Lists the Clearing Member's Futures and Options on Futures Open Positions for all accounts.
MP70	Fixed Income Forward Repo Position Report	Lists the Clearing Member's Repurchase Transactions accepted for clearing by CDCC.
MP71	Fixed Income Repo Conversion Position Report	Lists all of the Clearing Member's Repurchase Transactions that have progressed from Forward Repurchase Transactions to Running Repurchase Transactions on that day.

**CDCC-REPORTS**

MP73	Fixed Income Running Repo Open Positions Report	Lists all of the Clearing Member's Running Repurchase Transactions as of that day.
MP75	Fixed Income Forward Net Settlement Positions Report	Lists all of the Clearing Member's forward Net Settlement Positions obligations.
MP79	Daily Repo Rate Mark to Market Report	Lists the Clearing Member's Repo Rate Requirements.
MS01	Daily Settlement Summary Report	Lists assets balances with Margin requirements and cash settlement in Canadian and U.S. dollars.
MS06	Total Margin Requirement Report	Total margin requirement report with breakdown by margin categories, account types (Firm, Client, Multipurpose) and sub-accounts.
MS07	Intra-Day Margin Report	Margin call details with Margin requirements by account.
MS08	Daily Margin Activity Report	Lists details of positions by Class Group with Margin requirements.
MS10	Variation Margin Summary Report	Lists the details of the Fixed Income Clearing Member's Variation Margin activities and suggests securities to return if applicable.
MS70	Fixed Income Net Settlement Position Activity Report	Lists all of the Clearing Member's Fixed Income Transactions activities that contribute to its Net Settlement Position.
MS73	Entitlement Report	Lists all Fixed Income Clearing Member's coupon payments.
MS75	Fixed Income End of Day Settlement Instruction Report	Detail of Clearing Member's net settlement instructions to be sent to the Central Securities Depository after Netting Cut-Off Time.
MS77	Net Payment Against Delivery Requirement	Provide information at the sub-account level on settlements that occurred during the PITSO.
MS78	Forward NSP & Settlement Instruction Reconciliation Report	Information report containing Net Settlement Position information for the use of Clearing Member for reconciliation.
MT01	Options Daily Transaction Report	Lists details for all Option contracts from previous Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the Transactions).
MT03	List of Options/Cash Adjustments Report	Lists all trade adjustments and Open Position changes including cash adjustments and Position Transfers.
MT05	Options Consolidated Activity Report	Lists all positions with activity including Option Premiums.
MT06	Options Sub-Account Consolidated Activity Report	Lists positions with activity including Option Premiums for only the sub-accounts of Client, Firm and Multi-Purpose.
MT10	Unconfirmed Items Report	Lists all items that remained unconfirmed by the opposite member at the end of the current Business Day.
MT29	Trades Rejection Modification Report	Lists all original and modified trade rejections for the Clearing Member.
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MT52	Futures Tenders and Assignments Report	Lists all Tender Notices and Assigned Positions details.
MT53	List of Futures/Cash Adjustments Report	Lists details on all Futures and Options on Futures trade adjustments, Open Position changes, including cash

**CDCC-REPORTS**

		adjustments and Position Transfers.
MT54	Futures Trading Summary Report	Lists all Series of Futures and Options on Futures and prices, and volumes at which each were traded. Lists number of contracts bought and sold for each Series of Futures Trade Prices.
MT60	Share Futures Tender and Assigned Report	Lists totals for Share Futures (SF) tendered and assigned positions including the debit and credit dollar values of the transactions.
MT66	Futures Sub-Account Consolidated Activity Report	Lists Futures and Options on Futures positions with activity including Settlement of Gain and Losses and Futures Premiums respectively, for the sub-accounts of Client, Firm and Multi-Purpose.
MT70	Fixed Income Novated Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions novated to CDCC in accordance with the CDCC Clearing Application.
MT71	Fixed Income CSD Novated Trades Report	Lists the data transmitted to CDCC by the Central Securities Depository with respect to the Clearing Member's daily Fixed Income Transactions submitted for clearing.
MT73	Fixed Income Trade Rejection Report	Lists details of Clearing Member's daily Fixed Income Transactions that were rejected (DK) by CDCC or by the Clearing Member itself.
MT74	Fixed Income Not-Novated Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions that were not novated to CDCC, including all rejected and orphaned trades.
MT92	Options on Futures Exercised & Assigned Report	Lists totals for Options on Futures Exercised Positions and Assigned Positions by Series. <b>Note:</b> Futures Options Exercised Positions and Assigned Positions value is nil
MT99	Detailed Futures Consolidated Activity Report	Detailed list of all Futures position with activity, including Settlement of Gains and Losses. Detailed list of all Options on Futures positions and activity including Futures Premiums.
<b>Monthly:</b>		
MA71	Clearing Fund Statement (monthly and intra-monthly)	Identifies the Clearing Member's (excluding LCM) Clearing Fund obligation. Lists the Clearing Member's (excluding LCM) current Deposits within the Clearing Fund and what is owed.
<b>MAXX</b>	<a href="#">Supplemental Liquidity Fund Statement (monthly and intra-monthly)</a>	<a href="#">Identifies the Clearing Member's (excluding LCM) Supplemental Liquidity Contributions. Lists the Clearing Member's (excluding LCM) current Supplemental Liquidity Contributions within the Supplemental Liquidity Fund and what is owed.</a>
MB01	Monthly Clearing Fees Invoice	This report contains summarization of the monthly clearing fees in an invoice format - THIS IS NOT TO BE PAID. The system automatically includes the collection of the fees within the daily settlement on the morning of the fifth business day of the month.
MB02	Monthly Clearing Fees Details Report	This report contains the following four sub-reports: "Fees" - this is product by sub-account. "Summary by Category" - this is summarization by product. "Sub-Account Summary" - this is a summary of the operational charges by sub-account irrespective of product.

**CDCC-REPORTS**

		“Summary by Account Operation Type” - this is a summary of the operational charges by sub-account.
MB03	Monthly Fixed Income Clearing Fees Invoice	This report details the clearing fees that are due with respect to Fixed Income Transactions by each Clearing Member.
MT40	Broker Ranking by Account Report	Individual Clearing Member ranking within CDCC for contracts, value traded and transactions (trade only) by month with year to date.
<b>FIFO Period:</b>		
MP56	FIFO Position Report	Lists Series of Futures with positions in chronological order, contracts in positions.
MP60	FIFO Declaration vs. Open Position Report	Lists Clearing Member’s Futures positions and FIFO long positions declaration.
<b>Options on Futures Expiry:</b>		
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MX11	Futures Options Expiry Report	Lists all expiring Options on Futures with In-the-Money Options or Out-Of-the-Money Options amounts and Automatic Exercise positions for Expiry.
MX12	Futures Options Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series only.
MX13	Futures Options Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Futures Options Expiry Report (MX11).
<b>Options Expiry (Friday Evening):</b>		
MT01	Options Daily Transaction Report	Lists trade details for all expiring Option contracts for the Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the transactions).
MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out-of-the-Money Options amounts and Automatic Exercise positions for Expiry.
MX02	List of Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series of Options only.
MX03	Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Expiry Report.
<b>OTCI Expiry:</b>		
MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out-of-the-Money Options amounts and Automatic Exercise positions for Expiry.
<b>Business Day following Expiry:</b>		
MP11	Expired Options Positions Report	Lists the Clearing Member’s balance of expired Options positions following the Friday Expiry process.
MP12	Expired Futures Options Positions Report	Lists the Clearing Member’s balance of expired Futures Options positions following the Friday Expiry process.

## SUPPLEMENTAL LIQUIDITY FUND

### SUPPLEMENTAL LIQUIDITY FUND

Each Clearing Member (excluding LCMs) approved to clear Transactions shall maintain Supplemental Liquidity Contributions in the Supplemental Liquidity Fund of the amounts from time to time required by CDCC in accordance with Rule A-6A of CDCC Rule and the Risk Manual. The Supplemental Liquidity Fund has been established to protect CDCC from potential liquidity obligations or exposure that CDCC may suffer and shall be used for the purposes set out in Rule A-6A of CDCC Rules.

### Supplemental Liquidity Fund Statement

On the first Business Day of each calendar month, CDCC shall issue to each Clearing Member (excluding LCMs) a Supplemental Liquidity Fund statement that shall list the current amount of such Clearing Member's Supplemental Liquidity Contributions to the Supplemental Liquidity Fund and the amount of Supplemental Liquidity Contributions required of such Clearing Member. CDCC will also issue a Supplemental Liquidity Fund statement (MAXX) intra-monthly if an increase to the Supplemental Liquidity Contributions is necessary. Any deficit between the Supplemental Liquidity Contributions held in the Supplemental Liquidity Fund and the Supplemental Liquidity Contributions required to be made by a Clearing Member must be satisfied on the next Business Day (T+1) before 10:00 a.m. (no same-day deposit).

### Supplemental Liquidity Contributions

Supplemental Liquidity Contributions to the Supplemental Liquidity Fund shall be in the form of Cash. Supplemental Liquidity Contributions to the Supplemental Liquidity Fund are valued in the manner set forth in the Risk Manual.

### Withdrawals

Clearing Members (excluding LCMs) may request to withdraw any surplus amount from the Supplemental Liquidity Fund.

### Pledges

Pledges of Cash must be performed in accordance with Rule A-6A.







# RISK MANUAL

~~JUNE 12, 2020~~

## Glossary

Unless otherwise defined in this Risk Manual, capitalized terms shall have the meanings given to them in the Rules.

**Adjusted Base Initial Margin:** With respect to Limited Clearing Members, the Base Initial Margin is multiplied by the Effective Ratio. The Effective Ratio is recalibrated on a regular basis as provided in this Manual.

**Additional Margin(s):** Additional Margins are added to the Base Initial Margin (or Adjusted Base Initial Margin, where applicable) to form part of the Initial Margin in accordance with the methodology set out in this Manual. The Additional Margins include the following: (1) Additional Margin for Market Liquidity Risk, (2) Additional Margin for Specific Wrong-Way Risk, (3) Additional Margin for Mismatched Settlement Risk, (4) Additional Margin for Intra-Day Variation Margin Risk, (5) Additional Margin for Unpaid Option Premium Exposure Risk, (6) Additional Margin for Banking Holiday Risk, (7) Additional Margin for Variation Margin Delivery Risk, (8) Additional Margin for Capital Risk, (9) Additional Margin for Uncovered Risk of Limited Clearing Members and (10) any other additional Margins as set out in the Rules (other than required pursuant to Rule D-607). When used in the singular form, Additional Margin shall refer to one of the Additional Margins described above, whenever the context so requires.

**Additional Margin for Banking Holiday Risk:** The Additional Margin for Banking Holiday Risk covers the risk of uncovered exposures arising from new trades during the Banking Holiday and the additional market risk that the Corporation could face during the Banking Holiday.

**Additional Margin for Capital Risk:** This Margin requirement covers the credit risk of the Clearing Members that arises if the exposure of a Clearing Member to the Corporation is greater than the Clearing Member's capital level.

**Additional Margin for Intra-day Variation Margin Risk:** This Margin requirement covers the intra-day risk arising in circumstances in which market volatility or surges in trading volumes produce unusually large Variation Margin exposures.

**Additional Margin for Market Liquidity Risk:** This Margin requirement covers the liquidity risk arising when the Corporation has to close-out positions at a price different than the market price. This liquidity risk could be divided into two components: the first one is the inherent market liquidity risk which is mainly associated to the bid-ask spread, and the second one is the additional liquidity risk due to concentrated positions that cannot be liquidated within the bid-ask spread.

**Additional Margin for Mismatched Settlement Risk:** This Margin requirement covers the risk arising from a lag between the settlement of positions which otherwise results in a margin offset.

**Additional Margin for Specific Wrong-Way Risk:** This Margin requirement covers the risk that arises when the exposure of a Clearing Member in its own products is adversely correlated with the creditworthiness of that Clearing Member.

**Additional Margin for Uncovered Risk of Limited Clearing Members:** This Margin requirement covers the risk exposure that arises if the total value of the risk represented by a Limited Clearing Member to the Corporation is greater than the aggregate amount of the Limited Clearing Member's Adjusted Base Initial Margin and the total value of the Clearing Fund.

The risk represented by the Limited Clearing Member is determined by the Corporation by calculating the estimated loss that the Corporation would face in extreme but plausible market conditions. This Additional Margin is calculated on a daily basis and is required from Limited Clearing Members only.

**Additional Margin for Unpaid Option Premium Exposure Risk:** The Additional Margin for Unpaid Option Premium Exposure Risk covers the risk incurred by the Corporation in guaranteeing to each Clearing Member the settlement of the Net Daily Premium on a daily basis.

**Additional Margin for Variation Margin Delivery Risk:** The Additional Margin for Variation Margin Delivery Risk covers the risk incurred by the Corporation in guaranteeing to each Clearing Member having pledged specific securities to cover its Net Variation Margin Requirement, the return of such specific securities, in the event that another Clearing Member to which the specific securities were initially delivered fails to return such specific securities and becomes Non-Conforming or is Suspended. In this case, the Corporation will have to buy the specific securities in the market to return to the Clearing Member that had initially pledged the specific securities.

**Banking Holiday:** Remembrance Day, in Canada, or any day determined as Remembrance Day by the Corporation through its Holiday Schedule published on a yearly basis.

**Base Initial Margin:** The Base Initial Margin requirement covers the potential losses that may occur over the next liquidation period as a result of market fluctuations. The Base Initial Margin does not include any Additional Margins.

**Boundaries:** With respect to the Effective Ratio, the Boundaries refer for a specific period to the upper limit (UB) and lower limit (LB) which are respectively the highest and lowest Daily Ratios during such period.

**Clearing Fund Requirement:** The Clearing Fund Requirement constitutes the required contribution to the Clearing Fund for each Clearing Member (excluding Limited Clearing Members).

**Combined Commodity:** Group of positions that are associated with the same Underlying Interest or product or both. Combined Commodity is the lowest level at which the Base Initial Margin for Options, Futures and Unsettled Items is computed.

**Daily Ratio:** The Daily Ratio is determined, for any Business Day, by dividing the total amount of Clearing Fund Requirement on that Business Day by the aggregate amount of the Base Initial Margin requirement of all Clearing Members (other than Limited Clearing Members) on the same Business Day.

**Effective Ratio:** Ratio established by the Corporation, in accordance with the governance standards set forth in this Manual, which reflects the multiplier applicable to the Base Initial Margin for Limited Clearing Members.

**Expected Shortfall:** Average of all losses which are greater than or equal to the worst case. The worst case represents the  $(1-\alpha)\%$  case, where  $\alpha$  is the confidence level.

**Haircut:** Percentage discounted from the market value of eligible collateral pledged for Margin Deposit. The discount reflects the price movement volatility of the collateral pledged.

**Historical Filtered Scenarios:** Set of scenarios resulting of a weight applied to the Historical P&L Scenarios to reflect the current volatility. The current volatility is estimated by applying a volatility scaling adjustment using the exponentially weighted moving average (EWMA).

**Historical P&L Distribution:** Ranking of the Historical P&L Scenarios from the largest loss to the largest profit.

**Historical P&L Scenarios:** Set of scenarios for a Fixed Income Transaction representing the hypothetical gains and losses derived from Historical Filtered Scenarios. The gains and losses are created by calculating the difference between the price the Fixed Income Transaction under an Historical Filtered Scenario and the initial reference price.

**Historical Scenarios:** Set of scenarios for a Risk Factor and representing an hypothetical market observation movement reasonably likely to occur, from the current situation to a specific point in time in the future.

**Initial Margin:** The Initial Margin is composed of the Base Initial Margin (or Adjusted Base Initial Margin, as the case may be) and the Additional Margins.

**Inter-Commodity:** Portfolio containing offsetting positions in highly correlated instruments are subject to credits which reduce the overall Base Initial Margin for Options, Futures and Unsettled Items.

**Intra-Commodity:** Portfolio containing offsetting positions in different maturity month in the same Combined Commodity are subject to a charge since they may not be perfectly correlated.

Liquidity shortfall: The uncovered liquidity obligations, as determined by the Corporation based on the potential payment obligations that the Corporation could face upon the default of a Clearing Member in extreme but plausible market conditions, that remains outstanding after the Corporation has allocated (i) the cash in Clearing Member's Margin Deposit (including, without limitation, cash in the deposits required or made as Margin), and (2) the Corporation's available commercial bank liquidity lines.

**Margin Buffer Multiplier:** Multiplier to the Base Initial Margin for Fixed Income Transaction to prevent and control potential procyclical effects.

**Margin Interval (MI):** Parameter established by the Corporation which reflects the maximum price fluctuation that the Underlying Interest could be expected to have during the MPOR. The MI is used to calculate the Base Initial Margin for Options, Futures and Unsettled Items.

**Margin Period of Risk (MPOR):** The period required by the Corporation to close-out non-concentrated positions in a particular contract (or either through liquidation, auction or by hedging or neutralizing the market risk.

**Price Scan Range (PSR):** The maximum price movement reasonably likely to occur, during a specified timeframe.

**Risk Array:** A Risk Array is a set of scenarios defined for a particular contract and representing the hypothetical gain/loss under a specific set of market conditions from the current situation to a specific point in time in the future.

**Risk Factor:** Factor influencing the value of a Derivative Instrument or OTCI.

**Risk Engine:** The system used by the Corporation for risk management, risk measurement and calculation of Initial Margin and Clearing Fund Requirement.

**Rules:** means the Rules of the Corporation, including the Operations Manual and this Manual, as any such rules and manuals may from time to time be amended, changed, supplemented or replaced in whole or in part.

**Scanning Risk:** The difference between the initial reference price of an Underlying Interest and its most unfavourable projected liquidation value obtained by shocking the values of the Underlying Interest according to several scenarios representing adverse changes in normal market conditions.

**Short Option Minimum:** Amount included in the Base Initial Margin to cover the risk exposure arising from deep out-of-the-money short option positions. This amount is required if this amount is higher than the result of the Risk Arrays.

Uncovered Residual Liquidity Risk: The difference between each Clearing Member's highest daily Liquidity Shortfall and the highest Uncovered Residual Credit Risk across all Clearing

Members (excluding LCMs) in the last 60 business days before the date upon which CDCC determines the Supplemental Liquidity Contributions from time to time.

**Variation Margin:** The Variation Margin covers the risk due to the change in price of a Derivative Instrument or of an OTCI or a change in the Floating Price Rate, in each case since the previous evaluation in accordance with the Rules.

**VaR Risk Group(s):** Group of Fixed Income Transactions that are associated to similar Risk Factors. VaR Risk Group is the lowest level at which the Base Initial Margin for Fixed Income Transactions is computed.

**Volatility Scan Range (VSR):** The maximum implied volatility movement reasonably likely to occur, during a specified timeframe.

**Volatility Shock(s):** Parameter established by the Corporation which reflects the maximum daily volatility fluctuation of the Option contract. The Volatility Shock is used to calculate the Base Initial Margin for Options.

**Zero Curve:** Specific type of yield curve that associates interest rates on zero coupon bonds to different maturities (tenors). Tenors represent the Risk Factors inputs to evaluate the price of a Fixed Income Transaction using a full revaluation method.

## Section 1: Margin Deposits

### 1.1 MARGIN REQUIREMENT

#### 1.1.1 Initial Margin

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### 1.2 CLEARING FUND REQUIREMENT

Rule A-6 governs the rights and obligations of the Corporation and the Clearing Members, excluding Limited Clearing Members (LCMs), with respect to the Clearing Fund.

The Clearing Fund is a reserve fund put in place by the Corporation to absorb the deficit that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources do not cover its market exposure.

This fund is structured to mitigate the largest Uncovered Residual [Credit](#) Risk under extreme but plausible market conditions of all Clearing Members (excluding Limited Clearing Members) and of their Affiliate(s).

On a monthly basis, the Clearing Fund is reviewed and updated according to the following methodology which considers two specific elements:

- The size of the Clearing Fund is based on the largest Uncovered Residual [Credit Risk](#) of all Clearing Members and of their Affiliate(s) (excluding Limited Clearing Members) over the last sixty (60) Business Days. The size is then increased by 15%.
- Each Clearing Member's Clearing Fund Requirement amount is equal to the weight of its respective Base Initial Margin over the last sixty (60) Business Days multiplied by the size of the Clearing Fund. A Clearing Member's contribution is subject to a minimum floor (Base Deposit), which varies according to the Clearing Member's type of activity.

On an intra-month basis, the Corporation monitors and controls the size of the Clearing Fund and may adjust it upward between monthly re-evaluations. If the largest Uncovered Residual [Credit Risk](#) exceeds 90% of the size of the Clearing Fund but is inferior to 100% of the size of the Clearing Fund, the size of the Clearing Fund is increased by 15% of the current size. If the largest Uncovered Residual [Credit Risk](#) exceeds 100%, the size of the Clearing Fund is updated based on the methodology described above. [In both cases, the size of the Supplemental Liquidity Fund should be updated based on the methodology described in Section 1.3.](#)

### 1.3 [SUPPLEMENTAL LIQUIDITY CONTRIBUTIONS](#)

[Rule A-6A governs the rights and obligations of the Corporation and the Clearing Members \(excluding LCM\) with respect to the Supplemental Liquidity Fund.](#)

[The Supplemental Liquidity Contributions will be required by the Corporation at its discretion, in order to, among other reasons, absorb the liquidity exposures that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources and the available Clearing Fund resources \(including the Clearing Fund deposits made pursuant to Rule A-610\) over the multi-day Default Management Period do not cover the Corporation's and the Clearing Member's liquidity exposure. The Supplemental Liquidity Fund is structured to mitigate the largest Uncovered Residual Liquidity Risk under extreme but plausible market conditions of all Clearing Members \(excluding LCM\) and of their Affiliate\(s\).](#)

[The Supplemental Liquidity Fund is composed of two Tiers. Tier 1 contributions are maintained during all the calendar month it is required for while Tier 2 contributions are maintained during monthly expiry periods only. These two tiers represent the maximum amount of Supplemental Liquidity Contributions that the Corporation may require, at its discretion.](#)

[On a monthly basis, Tier 1 contributions and Tier 2 contributions to the Supplemental Liquidity Fund are reviewed and updated according to the following methodology:](#)

- [The maximum size of the Tier 1 contributions is based on the largest Uncovered Residual Liquidity Risk of all Clearing Members and of their Affiliate\(s\) \(excluding LCM\) over the non-expiry days of the last sixty \(60\) Business Days \(the "Tier 1 Uncovered Residual Liquidity Risk"\).](#)



The size is then increased by 15%. The Corporation may require, at its discretion, a different amount.

- The maximum size of the Tier 2 contributions is based on the positive difference between 1) the largest Uncovered Residual Liquidity Risk of all Clearing Members and of their Affiliate(s) (excluding LCM) over the expiry days of the last sixty (60) Business Days (such period shall cover a minimum of three expiry periods, as defined below) and 2) the Tier 1 Uncovered Residual Liquidity Risk. The size is then increased by 15%. The Corporation may require, at its discretion, a different amount.

- On an intra-month basis, the Corporation monitors and controls the size of the Supplemental Liquidity Fund and may adjust it upward between monthly re-evaluations. If the largest daily Liquidity Shortfall exceeds 90% of the available size of the Clearing Fund and the Supplemental Liquidity Fund combined (including the Clearing Fund deposits made pursuant to Rule A-610 and the Supplemental Liquidity Contributions made pursuant to Rule A-6A08), the size of the Supplemental Liquidity Fund (both Tier 1 and Tier 2) is updated based on the methodology described above.

- The allocation of the Supplemental Liquidity Fund is based on each Clearing Member's average Uncovered Residual Liquidity Risk for the past sixty (60) Business Days. For Tier 1 contributions, the allocation is based on the Clearing Member's average Uncovered Residual Liquidity Risk over the non-expiry days of the last sixty (60) Business Days. For Tier 2 contributions, the allocation is based on the Clearing Member's average Uncovered Residual Liquidity Risk over the expiry days of the last sixty (60) Business Days (such period shall cover a minimum of three expiry periods, as defined below).

For the purposes of this Section 1.3, an "expiry period" generally covers three "expiry days": the expiry day and the next two Business Days.

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### 2.5 RISK CONTROL MEASURES

## 2.5.1 General Considerations

## 2.5.2 Risk Limits

### 2.5.2.1 Limits at the Clearing Member Level

- Except for the Variation Margin account, for each acceptable Government Debt Security, excluding Treasury bills, a concentration limit equal to \$250 million or 10% of the total issue outstanding, whichever is less, is applied to each Clearing Member.
- Valued Securities issued or guaranteed by the Clearing Member or its Affiliates are not eligible.
- Valued Securities issued by the TMX Group are not eligible.

### 2.5.2.2 Limit on the Clearing Fund Account

For each Clearing Member, for all of its accounts combined, 100% of the Clearing Fund Requirements must be covered by Cash.

### 2.5.2.3 Limit on the Margin Requirements<sup>1</sup>

For each Clearing Member, for all of its accounts combined, at least 25% of the Margin requirements must be covered by Cash, acceptable Treasury bills and bonds issued or guaranteed by the Government of Canada or any combination thereof valued after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 40% of the Margin requirements may be covered by Debt Securities issued by the United States of America Federal Government after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 50% of the Margin requirements may be covered by provincial issued or guaranteed Debt Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Alberta after the application of Haircuts.

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<sup>1</sup> This excludes the Net Variation Margin Requirement.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of British Columbia after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Manitoba after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 30% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Ontario after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 30% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Quebec after the application of Haircuts.

For each Clearing Member, for all of its accounts combined no more than 15% of the Margin requirements may be covered by Valued Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 5% of the Margin requirements may be covered by any one Valued Security after the application of Haircuts.

#### **2.5.2.4 Limit on the Variation Margin Account**

For each Clearing Member, for all of its accounts combined, 100% of the Net Variation Margin Requirement must be covered by acceptable Treasury bills and bonds issued or guaranteed by the Government of Canada, Government of Alberta, Government of British Columbia, Government of Ontario and Government of Quebec or any combination thereof after the application of Haircuts.

CDCC shall, on an exceptional basis, acting reasonably, accept cash or other securities as collateral to cover the Net Variation Margin Requirement.

**2.5.2.5 Limit on the Supplemental Liquidity Fund**

For each Clearing Member, 100% of the Supplemental Liquidity Contributions must be covered by Cash.

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<sup>2</sup> Unsettled Items resulting of a physical delivery of Government of Canada Bond Futures are margined under the VaR methodology.



# DEFAULT MANUAL

~~APRIL 6, 2018~~

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In implementing the Default Management Process, the Corporation will aim at minimizing, to the extent possible and on a best efforts basis, the losses to the Corporation and its stakeholders. If there are nonetheless losses to the Corporation, the Corporation must apply, in specified order, a series of financial resources to ensure its ongoing viability and financial solvency. The sections (i) to (iv) below describe the financial resources which form the Default Waterfall and the order in which CDCC will apply them to cover losses associated with the liquidation of a suspended Clearing Member. Elements (i) to (iii) are referred to as “Prefunded Financial Resources”.

- i. **Suspended Clearing Member Resources**

- **Suspended Clearing Member Margin Deposit (Other than Clearing Fund deposits).** The first line of financial protection is the Margin Deposit posted by the suspended Clearing Member as part of the Corporation's routine collateralization process; and
- **Suspended Clearing Member's Clearing Fund deposits.** As specified by the Rules, each Clearing Member (other than a Limited Clearing Member) must also post a contribution to the Clearing Fund. Once the Corporation has exhausted the suspended Clearing Member's Margin Deposit, it will next use the suspended Clearing Member's contribution to the Clearing Fund in its loss absorption effort.
- [Suspended Clearing Member's Supplemental Liquidity Contributions. Once the Corporation has exhausted the suspended Clearing Member's Margin Deposit and Clearing Fund Deposits, it will next use the suspended Clearing Member's Supplemental Liquidity Contributions.](#)

If after applying these resources of the suspended Clearing Member, a shortfall still remains, the Corporation would, as indicated below, use the resources of the Corporation to cover the losses.

**ii. Resources of the Corporation (Default Risk Capital - DRC)**

- CDCC has capital reserves set aside specifically for the purpose of absorbing any loss outstanding after the exhaustion of the suspended Clearing Member's resources. This capital, which is currently \$5 million, is referred to herein as "Default Risk Capital" or "DRC".

If, after applying these resources of the suspended Clearing Member and of CDCC, a shortfall still remains, CDCC will, as indicated below, use the required Clearing Fund deposits (referred therein as "Clearing Fund Requirement") of the other Clearing Members to cover the loss.

**iii. Surviving Clearing Members Clearing Fund Requirements**

- The Corporation will subsequently use the Clearing Fund Requirements of the surviving Clearing Members (i.e. the Clearing Members that have not been suspended). For further details on the loss allocation, please refer to Appendix 2.

The above set of financial resources (listed in (i) to (iii) ) which form the Prefunded Financial Resources of the Default Waterfall and are readily available for the Corporation to extinguish financial losses stemming from a Clearing Member's default

are deemed highly reliable as they are under the control of CDCC and are held for this sole purpose. All Margin and Clearing Fund deposits are subject to a first ranking security interest granted by the Clearing Members to CDCC for such purpose.

#### iv. 2nd Surviving Clearing Members' Clearing Fund Requirements

- If after applying all of the financial resources specified above, a loss still persists, the Corporation may request that the remaining Clearing Members (other than Limited Clearing Members) replenish their Clearing Fund Requirements, in the manner specified in Section A-610 of its Rules. The Corporation in total may apply up to a maximum of 200%<sup>1</sup> of the Clearing Fund Requirements of all such remaining Clearing Members, to satisfy the outstanding obligation as provided in Section A-609(5).

#### v. Surviving Clearing Members' Supplemental Liquidity Contributions

- If, at any time during a Default Management Process, the Corporation must honor any liquidity obligations or exposure on a timely basis as a result of the suspension of a Clearing Member, the Corporation shall be authorized to use the Supplemental Liquidity Contributions required of the surviving Clearing Members to meet the liquidity obligations or exposure. All surviving Clearing Members' Supplemental Liquidity Contributions used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund after the Default Management Period has ended. In total, the Corporation may apply up to a maximum of 200% of the Supplemental Liquidity Contributions of all such surviving Clearing Members, as provided in Section A-6A08 of the Rules.

The Corporation shall follow the prescribed order of the Default Waterfall, and communicate with all relevant parties in an effective fashion. In the event that the Corporation is able to recover any loss incurred from the suspended Clearing Member, it shall first reimburse any other Clearing Member Clearing Fund Requirements that were used to extinguish losses, in the reverse order of their application, before reimbursing CDCC's own capital reserves used.

### 1.7 MAKING GOOD ON CHARGES TO CLEARING FUND

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<sup>1</sup> The maximum percentage of 200% includes the prefunded surviving Clearing Members Clearing Fund Requirements described in sub-section iii.

## **Section 2: Default Management Governance**

### **2.1 GOVERNANCE STRUCTURE**

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While not a source of capital available for the offset of losses, the Corporation has available an array of liquidity [tools and](#) facilities, which it may, at its discretion, call upon to assist with the funding of its loss mitigation activities. In the event of a default, the Corporation must make a determination as to how to deploy these resources: ~~Included among its alternatives are:~~

- [Drawing upon its commercial bank liquidity lines, in whole or in part.](#)
- [Using the Supplemental Liquidity Contributions held in the Supplemental Liquidity Fund, in whole or in part. The Supplemental Liquidity Fund shall not be used for loss allocation. Any usage by the Corporation of the Supplemental Liquidity Fund will be paid back as soon as practicable after a Default Management Period.](#)
- ~~Drawing upon the Corporation's commercial bank liquidity lines, in whole or in part.~~
- Raising liquidity through outright sales and/or Repurchase Transactions involving Securities of the defaulting Clearing Member.
- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of suspended Clearing Member's Margin Deposits (including without limitation Margin and Clearing Fund deposits).
- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of surviving Clearing Members' Clearing Fund Requirements.



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### 4.3 LIQUIDITY MANAGEMENT

[Without limiting the options provided in Sub-section 3.5 of this Manual, such options being also available to the Corporation in a Recovery Process,](#) in managing its liquidity, the Corporation can use, after the financial resources of the Default Waterfall, the available financial resources levied through the exercise of its Recovery Powers such as the Reduced Amounts Distribution and the Recovery Loss Cash Payment for temporary liquidity funding. Indeed, these recovery tools can be similarly used in accordance with the Rules for either (1) credit purposes to cover any market-driven losses related to a default, or (2) liquidity purposes to cover any liquidity-driven obligation related to the liquidation of the suspended Clearing Member's collateral and positions.

### 4.4 RECOVERY GOVERNANCE

### 4.5 RECOVERY LOSS ALLOCATION METHODOLOGY



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**Circular 130-21: Summarized comments and responses**

**AMENDMENTS TO RULES, OPERATIONS MANUAL, RISK MANUAL AND DEFAULT MANUAL OF  
THE CANADIAN DERIVATIVES CLEARING CORPORATION TO INTRODUCE A SUPPLEMENTAL LIQUIDITY FUND**

No.	Summary of comments	Summary of responses
<b>Clearing Member #1</b>		
1.	<p><b>Can the purpose / usage of the SLF be further clarified in the rules? The proposed clause A-6A07 is very broad and (“meet any liquidity obligations”) and potentially allows the SLF to be used for non-default or member shortfall related purposes (including potentially for general corporate purposes).</b></p>	<p>The SLF is sized in order to ensure CDCC has sufficient liquid resources to cover liquidity obligations arising from a default of a Clearing Members. These liquidity obligations mainly include the following:</p> <ul style="list-style-type: none"> <li>- MtM payment estimates in stressed market conditions;</li> <li>- Equity / FI settlements</li> </ul> <p>CDCC cannot use SLF to cover liquidity needs outside these 2 types of liquidity obligations (arising in a default management period or not). More precisely, the SLF will not be used to cover liquidity obligations arising non-default related events or from general corporate purposes. In addition, the SLF cannot be used to allocate credit losses and is intended to be reimbursed to CMs in the event it is used.</p> <p>Based on the foregoing, CDCC will modify the proposed Subsection A-6A07 (1):</p> <p><i>“The Supplemental Liquidity Fund can be used by the Corporation to meet any liquidity obligations or exposures (such as mark-to market payments and settlements) suffered by the Corporation at any time, whether arising during or resulting from a Default Management Period or not; provided, however, that the Supplemental Liquidity Fund cannot be used in the allocation of, or for the payment of, residual credit losses or for general corporate purposes. (...)”</i></p>

2.	<b>Will the SLF deposit qualify towards any limits (such as CDCC's capital-based limits) for Clearing Members?</b>	There is no specific dollar limit to the SLF Contributions.
3.	<b>What impact would the CDCC's proposed introduction of Gross Client Margining (GCM) have on the SLF requirements?</b>	Based on our analysis, the SLF is expected to decrease as a result of the GCM initiative. A detailed impact analysis has been submitted as part of the Notice to Members No 2021 – 164 that was published on CDCC's website on November 5th, 2021.
4.	<b>What is the rate at which the SLF is borrowed?</b>	The rate is based on the Bank of Canada overnight rate which is supplemented by a predetermined spread.
5.	<b>Where will the SLF be maintained?</b>	Similarly to the Clearing Fund, all funds are maintained at a bank account held at Bank of Canada.
6.	<b>Can you detail CDCC's investment policy with regards to the SLF?</b>	There is no specific investment plan for SLF funds. Like other CAD cash collateral, such funds should, wherever possible, be left at the Bank of Canada. As per investment policy, the cash collateral for SLF is classified as amounts held for risk management purposes and subject to entity limit monitoring as an ongoing basis. The credit exposure limit for the Bank of Canada at CDCC side is CAD 12,000 MM
7.	<b>Who would bear the investment losses pertaining to the SLF?</b>	There is no specific investment plan for the SLF Funds. Like other CAD cash collateral, such funds should, wherever possible, be left at the Bank of Canada. Clearing Members will bear the loss in the case of negative interest rate, as per the proposed rules.
8.	<b>What are CDCC's provisions if the SLF is unavailable (due to operational issues) or impacted by issues such as cyber theft?</b>	The same controls that currently apply to contributions to the Clearing Fund apply to the SLF. CDCC has put in place multiple controls to ensure that both a timely escalation and support are available should an issue impact a Tier 1 process like SLF.

		<p>Since SLF funds will be held at the Bank of Canada, both CDCC and Bank of Canada have in place back-up procedures to ensure that SLF can be accessed in a timely manner in the event an operational issue occurs.</p> <p>If liquidity is needed to manage a default event, CDCC can temporarily access to other kind of qualifying liquidity resources available to cover liquidity shortfalls such as:</p> <ul style="list-style-type: none"> <li>- Cash in the suspended Clearing Member’s margin fund.</li> <li>- Available cash through the usage of CDCC’s credit lines</li> <li>- Clearing Fund</li> <li>- CDCC Default Risk Capital</li> <li>- Recovery tools</li> </ul>
9.	<p><b>Can CDCC provide a bankruptcy remoteness opinion with regards to the SLF maintained by CDCC?</b></p>	<p>The cash collateral is not bankruptcy remote.</p> <p>The fact that cash (that is, a sum of money) is transferred from one person to another to be used by the transferee for certain purposes does not entail that the transferor remains the “owner” of the cash (or its unused balance). The transferor’s right to the return of the cash in certain circumstances (here, the withdrawal rights of a Clearing Member) is a debt owing to the transferor (a “claim” under Quebec law terminology), and not a property right or interest in the cash. Cash does not constitute tangible property and is not susceptible of being the subject of appropriation in the same manner as tangible property. Therefore, the legal relationship arising from cash contributions made by the Clearing Members to CDCC and to be returned in specified circumstances is a creditor-debtor relationship, and not an owner-custodian (or depositary) relationship.</p> <p>Put differently, as the cash is not tangible property, the pledge of same results in CDCC becoming the owner thereof, with an obligation to return it to the member in accordance with the rules. The member has a claim for the return of the cash, and</p>

		<p>does not retain a property interest in the cash.</p>
<p>10.</p>	<p><b>What is the rationale for requiring members to replenish the SLF during a cooling off period?</b></p>	<p>Please note that CDCC does not use any concept of cooling off period related to its default management process.</p> <p>The prefunded SLF and the first replenishment are sized to ensure sufficient liquidity is obtained to cover a 2 days default management period. In the event CDCC has used both the prefunded SLF contributions and the replenished amounts during the default management period, being able to replenish further allows CDCC to maintain cover 1 after the default event is managed.</p> <p>Based on the foregoing, CDCC will amend the propose Subsection A-6A07 (5) will be modified to reflect more correctly the language used from the similar Clearing Fund provisions:</p> <p><i>“Without limiting the rights of the Corporation under Subsections A-6A07(2) and A-6A07(4), during a single Default Management Period, the Corporation shall not, with respect to each Clearing Member that has not been suspended, apply more than 200% of the Supplemental Liquidity Contributions required by such Clearing Member as of the date of the commencement of the Default Management Period to handle any liquidity obligations or exposure it may encounter during the Default Management Period.”</i></p>
<p>11.</p>	<p><b>Given the SLF is a liquidity deposit which should be repaid from credit resources, what is the rationale for requiring replenishment of the SLF and for requiring up to 200% replenishment?</b></p>	<p>The prefunded SLF and the first replenishment are sized to ensure sufficient liquidity is obtained to cover a 2-day default management period. In the event CDCC has used both the prefunded SLF contributions and the replenished amounts during the default management period, being able to replenish further allows CDCC to maintain cover 1 after the default event is managed.</p> <p>CDCC will make its best effort to reimburse the used SLF and any replenished amounts right after the default management period ends. However, in situations where the reimbursement takes longer, the 2nd replenished amount will allow CDCC to be able</p>

		to maintain Cover 1 status after a default happens.
12.	<b>Can you help understand how the 200% cap functions? Once a Clearing Member’s cap is reached, can the SLF contribution of the Clearing Member no longer be used for any subsequent defaults/shortfalls that happen during the cooling-off period?</b>	<p>Both the prefunded SLF and 1st replenished amount can be used to cover any liquidity needs arising from any default that happens during the default management period. However, the 2nd replenished amount cannot be used to cover liquidity needs related to the current default management period.</p> <p>This 2nd replenished amount allows CDCC to maintain a Cover 1 status after a default management period ends.</p> <p>CDCC does not use any concept of cooling off period related to its default management process. CDCC has planned to review the withdrawal rules and the cooling off period concept and changes may be made to clarify CMs liabilities and exposures in the event a withdrawal is requested after a default management process.</p>
13.	<b>How would the SLF replenishment requirement differ for members during and outside a cooling-off period?</b>	<p>CDCC does not use any concept of cooling off period related to its default management process.</p> <p>Both the prefunded SLF and 1st replenished amount can be used to cover any liquidity needs arising from any default that happened during the default management period. However, the 2nd replenished amount cannot be used to cover liquidity needs related to the current default management period.</p> <p>This 2nd replenished amount allows CDCC to maintain a Cover 1 status after a default management period ends.</p>
14.	<b>Currently the duration of the default management period is not a fixed time and depends on the conclusion of the default management process. Given member’s SLF contribution is reimbursed after the end of the default management period, there is</b>	<p>CDCC’s internal procedures and models are based on the assumption that the default management period will last 2 days. However, if CDCC is exposed to a situation where credit or liquidity exposures are higher than expected, the default management period could last for a longer period. As soon as the default management period ends, CDCC will always reimburse SLF and replenished amounts as soon as practicable to its</p>

	<p><b>uncertainty as to when such reimbursement would be made. As such, can CDCC consider formalizing the duration of the default management period?</b></p>	<p>Clearing Members.</p>
<p>15.</p>	<p><b>Can the SLF contributions of a member that has completed withdrawal be utilized by the CCP?</b></p>	<p>As per the proposed Section A-6A09 of the rules, SLF contributions will be held 30 days after withdrawal and it could be utilized in the event of a default during that period.</p>
<p>16.</p>	<p><b>Can you walk us through the sizing and allocation process of for the SLF? Can you help understand the rationale for using uncovered residual liquidity risk for sizing the SLF?</b></p>	<p>The SLF is sized based on the highest Residual Liquidity Exposure “RLE” across all CMs using a lookback period of 60 days:</p> <ul style="list-style-type: none"> <li>● Tier-1 aims at covering liquidity risk during non-expiry periods and is sized based on the highest RLE during non-expiry periods of the 60-day lookback period.</li> <li>● Tier-2 aims at covering liquidity risk during expiry periods and is sized based on the highest RLE during expiry periods of the 60-day lookback period.</li> </ul> <p>The size is allocated to each CM based on their average 60 days RLE:</p> <ul style="list-style-type: none"> <li>● Tier-1: pro-rata to each CMs’ average Daily RLE during non-expiry periods of the 60-day lookback period.</li> <li>● Tier-2: pro-rata to Average 60 day’s Daily RLE during expiry periods of the 60-day lookback period.</li> </ul>
<p>17.</p>	<p><b>What are the stress scenarios used for liquidity sizing and how do these differ from sizing the credit losses? What are the drivers (derivatives vs. repos) for the aggregate liquidity requirement?</b></p>	<p>Stress scenarios used for sizing liquidity needs are similar to the ones used to cover credit needs.</p> <p>The main drivers of the aggregate liquidity requirement are the estimated Futures MtM in stressed market conditions, equity and FI settlements and amounts of CAD cash pledged in the margin fund by the impacted Clearing Member.</p>



18.	<b>Could a numerical example be shared to illustrate the sizing and allocation process?</b>	<p>Given the very complex nature of the answer, an example was sent directly to the Clearing Member asking the question and will not be reproduced in this table.</p> <p>For regulators, please attached.</p>
19.	<b>Can you help understand why the intra-month resizing trigger for the SLF is linked to the change in the uncovered residual credit risk (URCR)?</b>	<p>The Clearing Fund is sized based on Uncovered Residual Credit Risk (URCR) and has to be covered by Clearing Members in CAD cash only.</p> <p>SLF is sized based on Residual Liquidity Exposures which are computed as the difference of the Uncovered Residual Liquidity Risk (URLR) and the Uncovered Residual Credit Risk (URCR). Therefore, the SLF can be seen as a tool allowing to cover any residual Liquidity Shortfalls that can't be covered through the Qualifying Liquid Resources that are accessible via the Clearing Fund.</p> <p>For instance, If the URCR increases intra-month while the URLR remains stable, this could trigger an increase of the Clearing Fund to cover the higher URCR. In this case, the SLF would be decreased due to the decrease in Residual Liquidity Risk levels.</p>
20.	<b>What is the governance process in determining the buffer that is applied when sizing the SLF?</b>	<p>The buffer is designed as a way to mitigate position risk. It is determined based on sensitivity analysis to ensure that CDCC's Cover-1 status is maintained.</p>
21.	<b>Is the Tier 1 contribution sizing based on the URLR or the largest Clearing Member family (i.e. single member) or is it the aggregate of the URLR of all the CM families?</b>	<p>SLF Tier 1 is sized based on the largest CM exposure during non-expiry days contained in the lookback period.</p>
22.	<b>Does the SLF sizing account for liquid resources by way of cash Clearing Fund or is the intent to eliminate the need for cash Clearing Fund?</b>	<p>The Clearing Fund still needs to be covered in CAD cash as SLF is sized to cover any liquidity exposures that cannot be covered by Clearing Fund.</p>

Clearing Member #2		
1.	<b>Please confirm a non-defaulting Clearing Member's SLF contributions can be used to cover the liquidity needs arising from the default of another Clearing Member.</b>	CDCC confirms the statement.
2.	<b>Please confirm that the SLF will used only after defaulter's resources and CDCC's commercial liquidity lines are fully exhausted.</b>	CDCC confirms the statement.
3.	<b>Please confirm that the SLF contributions of non-defaulting members cannot be used to cover losses arising from the default of another Clearing Member and that non-defaulting members' SLF contributions will be returned after the default management process is complete.</b>	CDCC confirms the statement.
4.	<b>Is the SLF contributions cash only?</b>	SLF will be covered using CAD cash only.
5.	<b>The CCP states "except in specific circumstances, any usage to raise liquidity in the event of the suspension of a CM will be reimbursed after the end of the default management process (or as soon as practicable)". Could you explain what these specific circumstances are who defines them?</b>	<p>SLF will be always reimbursed to survivors CMs right after a default management process is done. However, in some specific circumstances where we might suffer liquidity losses beyond the SLF, the CMs' contributions may not be reimbursed right after the default management process is done. It might take longer for CDCC to reimburse. In short, CDCC meant to confirm that the reimbursement will be made after the end of the Default Process, but in specific circumstances, it may take more time to pay back the CMs.</p> <p>Please note that CDCC's proposed rules either state that (i) the Supplemental Liquidity Contributions used by the Corporation will be paid back by CDCC to the Supplemental Liquidity Fund after the Default Management Period has ended, or (ii) any usage by</p>

		CDCC of the Supplemental Liquidity Fund will be paid back as soon as practicable after a Default Management Period.
6.	<b>A non-defaulting Clearing Member is required to replenish its SLF contributions once utilized. CDCC can ask for 2x replenishment. Can the replenishment be used to cover liquidity events arising from prior defaults?</b>	Please refer to our answer to Question 10 and Question 12, Clearing Member #1.
7.	<b>In calculating the Tier 1 and Tier 2 contributions of the SLF, the CCP applies a buffer. Could you provide us more information on what this buffer is and how it is determined?</b>	Please refer to our answer to Question 20, Clearing Member #1.
8.	<b>Is SLF contribution bankruptcy remote? [As cash is title transferred at CDCC]</b>	Please refer to our answer to Question 9, Clearing Member #1.