



NOTICE TO MEMBERS

No. 2017 – 031

February 23, 2017

SELF-CERTIFICATION

AMENDMENTS TO THE RULES, OPERATIONS MANUAL AND RISK MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION

On November 2, 2016, the Board of Directors of the Canadian Derivatives Clearing Corporation (“CDCC”) approved amendments to the Rules, the Operations Manual and Risk Manual of CDCC. 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 Not Requiring Approval in Ontario” process.

The proposed amendments are part of CDCC commitment to ensure CDCC’s Rules and Manuals are clear and transparent, and provide accurate reflection of current practices.

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Rules, Operations Manual and Risk Manual of CDCC that will be made available on the CDCC website at www.cdcc.ca on February 28, 2017, after market close.

If you have any questions or concerns regarding this notice, please contact CDCC’s Corporate Operations department or direct your email inquiries to cdcc-ops@tmx.com.

Glenn Goucher
President and Chief Clearing Officer

Canadian Derivatives Clearing Corporation

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CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

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 Underlying Interests” – means an Underlying Interest which is determined by the Corporation as acceptable for clearing by 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 IROC Rules including IROC 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.

“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.

“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 percent 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 ~~AD~~-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 Depository” – means a financial institution approved by the Corporation to act in such capacity in accordance with the criteria set forth in Subsection A-212(8).

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

“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.

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

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

“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 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).

“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).

“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.

“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 D103.

“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 CDCC 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.

“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 there 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.

“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 Acceptable Security.

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

“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).

“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” – means a payment, deposit or transfer, whether of cash, securities, certificates, property, Underlying Interests, Underlying Interest Equivalents or other property or rights.

“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.

“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, 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, 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 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.

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

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

“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. Unless subsequently changed by the Corporation, the Expiration Time shall be 10:45 p.m. on the Expiration Date.

“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 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.

“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(10).

“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(10).

“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.

“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.

“Margin” – means any and all the deposits required or made pursuant to Rule A-7 Margin Requirements.

“Margin Deposit” – means, collectively,

- a) any and all Securities, Cash, Instruments, cheques, Underlying Interest, Underlying Interest Equivalent, 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, and 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 are accepted by the Corporation; and
- c) any and all securities pledged or assigned to the Corporation through the facilities of a Central Securities Depository;

deposited by or on behalf of the Clearing Member with the Corporation.

“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 Exchange or Exchanges involved.

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

“Morning Net DVP Settlement Timeframe” – 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” – the meaning attributed thereto in Section A-1A04.

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

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

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

“Open Interest” or “Open Position” – means the position of a buyer or a seller of an Option, of a Future or of an OTCI.

“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 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.

“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 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.

“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) and Paragraph A-801(2)(d) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(10), 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.

“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) and Paragraph A-801(2)(d) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(10), as the case may be.

“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 (CO₂e) 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 (CO₂e) 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.

“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, the means 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(4) 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(10), 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(4) 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(10), 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 Members, 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.

“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 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.

“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).

“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).

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

“Uncovered Residual Risk” or “URR” – means the amount of risk determined by the Corporation to be uncovered by the Margin model, resulting from an estimation of the loss the Corporation would face in extreme but plausible market conditions done through rigorous stress tests. The URR represents the largest uncovered risk from a Clearing Member and its Affiliates.

“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-708.

“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.

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

RULE C-13 10-YEAR CANADA BOND FUTURES (SYMBOL - CGB)

The Sections of this Rule C-13 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1302, herein referred to as “10-year Canada Bond Futures”.

SECTION C-1301 DEFINITIONS

Notwithstanding Section A-102 for the purposes of 10-year Canada Bond Futures the following terms are as defined:

“Assignment File” – means the computer file constructed to enable Tenders to be assigned on a first-in-first-out basis pursuant to Section C-1305.

“Underlying Interest” – means Government of Canada Bonds which meet the criteria established in Section C-1302 of this Rule.

SECTION C-1302 DELIVERY STANDARDS

~~1) For 10-year Canada Bond Futures Expiring in December 1999 or March 2000.~~

~~b) The delivery unit for 10-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 8 years and no more than 10 1/2 years from the first calendar day of the Delivery Month, having a coupon rate of 9%, an aggregate face value at maturity of \$100,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least \$3.5 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which are originally issued at 10-year auctions.~~

~~— All bonds in a delivery unit must be of the same issue. —~~

~~d) Substitution at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 9% are deliverable, at a discount for bonds with coupons less than 9%, and at a premium for bonds with coupons more than 9%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 9% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 9% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$1,000 multiplied by the product of such price and the Settlement Price of that series of 10-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.~~

5)1) For 10-year Canada Bond Futures Expiring on or after June 2000.

a) The delivery unit for 10-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 8 years and no more than 10 1/2 years from the first calendar day of the Delivery Month, having a coupon rate of 6%, an aggregate

face value at maturity of \$100,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least \$3.5 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which are originally issued at 10-year auctions.

All bonds in a delivery unit must be of the same issue.

- b) Substitution - at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 6% are deliverable, at a discount for bonds with coupons less than 6%, and at a premium for bonds with coupons more than 6%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 6% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 6% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$1,000 multiplied by the product of such price and the Settlement Price of that series of 10-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.

62) For all 10-year Canada Bond Futures

- c) The Exchange on which the Future trades shall publish a list of deliverable issues prior to each Delivery Month. The time to maturity of a given issue is calculated in complete three month increments (rounded down to the nearest quarter) from the first day of the Delivery Month. New issues of Government of Canada bonds which satisfy the standards of this Section shall be added to the deliverable list as they are issued by the Government of Canada. In the event that, at any regular issue or auction, the Government of Canada reopens an existing bond not issued at a 10-year auction that would otherwise meet the standards of this Rule, thus rendering the existing issue indistinguishable from the newly issued one, then the older issue is deemed to meet the standards of this Rule and would be deliverable if the reopening of such an existing issue has a total minimum face value amount of \$3.5 billion during the last 12 month period preceding the first tender date of the contract month. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this Section.
- d) In the event the Corporation determines that there exists a shortage of deliverable Government of Canada Bond issues it may designate as deliverable on a 10-year Canada Bond Futures such other Government of Canada issues as it deems suitable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

SECTION C-1303 SUBMISSION OF TENDER NOTICES

- 1) A Clearing Member who holds a Short Position in the currently deliverable series and who wishes to make delivery must submit a Tender Notice to the Corporation no later than the time established by the Corporation on a Business Day from three Business Days prior to the first Business Day of the Delivery Month up to and including the third last Business Day preceding the last Business Day of the Delivery Month indicating the maturity of the Government of Canada bonds being delivered.

- 2) A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable series shall submit a Tender Notice to the Corporation indicating the maturity of the Government of Canada Bonds being delivered. Such Notice must be tendered no later than the third Business Day preceding the last Business Day of the Delivery Month.

This Section C-1303 supplements Section C-503.

SECTION C-1304 DELIVERY THROUGH THE CENTRAL SECURITIES DEPOSITORY

- 1) Day of Delivery - Delivery of Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the third Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation. Delivery must be made no later than the last Business Day of the Delivery Month.
- 2) Time of Delivery - Each Clearing Member who is to make delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).
- 3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the Time of Delivery, Section A-804 shall apply.

SECTION C-1305 ASSIGNMENT OF TENDER NOTICE

- 1) Tender Notices accepted by the Corporation shall be assigned, at the end of each Business Day on which the Contract Specifications permits Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the day on which the Tender Notice is submitted. Tenders Notices will be assigned in accordance with the Corporations procedures of assigning Tender Notices to the oldest open contract (First In, First Out).
- 2) A Tender Notice shall not be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender Notice assigned to a Clearing Member which is subsequently so suspended shall be withdrawn and thereupon assigned to another Clearing Member in accordance with this Section.

This Section C-1305 replaces Section C-505.

SECTION C-1306 ASSIGNMENT FILE PROCEDURES

The following rule shall apply to the compilation of the Assignment File.

- 1) On the sixth Business Day prior to the first Business Day of the Delivery Month each Clearing Member holding Long Positions in the relevant Series of Futures must enter into the Assignment File in CDCS all the Clearing Member's Long Positions in that Series of Futures in chronological order.

- 2) Prior to the Close of Business on each subsequent Business Day up to and including the next to last Business Day on which Tender Notices may be submitted, each Clearing Member shall access the Assignment File and either make changes to reflect the current chronological order of all Long Positions in the relevant Series of Futures or confirm that the existing Assignment File records are correct.
- 3) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation until the Close of Business on every day on which an amendment to the Assignment File can be made.
- 4) It shall be the duty of each Clearing Member to review daily the relevant reports available on CDCS.
- 5) Failure to access the Assignment File and maintain the current chronological order of all the Clearing Member's Long Positions in the relevant Series of Futures on a daily basis or to have an Authorized Representative available by telephone shall be deemed a violation of the Rules pursuant to Paragraph A-1A04(3)(a) and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5.



Section: 4 - 1

TRADE PROCESSING



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

OPERATIONS MANUAL



Section: 4 - 2

TRADE PROCESSING

EXCHANGE TRANSACTIONS (OPTIONS AND FUTURES)

Positions of each Clearing Member are carried by CDCC for Client Account(s), Firm Account(s) and Multi-Purpose Account(s), each of which is maintained separately. CDCC supplies reports for each account.

Such separation requires that each Clearing Member designates whether a Transaction is submitted for a “Client”, “Firm” or “Multi-Purpose” when submitting a Transaction for clearing. Furthermore, if separate sub-accounts are maintained for each account type, each Transaction must be coded to indicate the appropriate sub-account information.

It is required that a Closing Transaction for a Client Account be designated as such on the trade input. Such designation is not required for a Netted Client Account, a Multi-Purpose Account or a Firm Account, as CDCC carries net position records in the Open Position File for each of these accounts.

All Transactions for a Client Account which are not specifically designated as Closing Transactions shall be processed by CDCC as Opening Transactions. Opening Purchase Transactions increase the Long Position and Opening Writing Transactions increase the Short Position, in the particular Series of Options involved, as reported in the Clearing Member's Client Account. Opening Buy Transactions increase the Long Position and Opening Sell Transactions increase the Short Position, in the particular Series of Futures involved, as reported in the Clearing Member's Client Account.

Conversely, all Transactions designated as Closing Transactions decrease the Short Position and Long Position, respectively, for the particular Series of Options or Series of Futures in the reporting Clearing Member's Client Account. The CDCC Clearing Application verifies that all the Closing Transactions are valid and if the volume of a Closing Transaction exceeds the Open Position, the CDCC Clearing Application will reject it and replace it ~~by a Closing Transaction not exceeding the Open Position and~~ by an Opening Transaction for the entire volume remaining Open Position that could not be closed.

The designation of a Transaction as “opening” or “closing” can be modified by the Close of Business.

CDCC maintains both the Long Position and the Short Position for each Series of Options and Series of Futures for Client Accounts but only maintains a net Long Position or net Short Position for each Series of Options and Series of Futures for Netted Client Accounts, Multi-Purpose Accounts and Firm Accounts.

OPEN POSITIONS

INTRODUCTION

Having accepted a Transaction, the next step in the CDCC Clearing Application is the determination of the Open Position. Each Clearing Member can view all the information related to their accounts on the Open Position File which records the open Long Position and Short Position for each Series of Options and Series of Futures, OTCI and Fixed Income Transactions for each account type, updating the information as each Transaction is accepted.

Each Clearing Member is responsible for reconciling the information recorded on the Open Position File and all relevant reports issued by CDCC against their internal records. Careful attention must be paid to account designation and whether the Transaction is coded as “opening” or “closing” in the relevant file or report. Reports are available for FTP Download as per Section 2 of this Operations Manual.

Open Interest is updated automatically as each Transaction, Exercise Notice and Tender Notice is processed.

ADJUSTMENTS OF OPEN POSITIONS

GENERAL

Occasionally the need will arise to adjust an already processed Transaction. In such cases, the adjustment will affect the Clearing Member's Open Position accordingly. For example, an adjustment designed to change the original Opening Buy Transaction (or Opening Purchase Transaction) to a Closing Buy Transaction (or Closing Purchase Transaction) will result in a decrease in the Long Position ~~and in the Short Position~~ in the Series of Futures (or Series of Options) ~~involved equal to by~~ the volume of the original Transaction. Any Settlement of Gains and Losses (or Premium) adjustments will be shown as adjustments on the relevant report.

Generally this situation will occur when:

1. The transactional details were incorrectly recorded, e.g. Clearing Member number, price, series and volume.
2. Information pertaining to only one side of the Transaction such as the opening/closing or account designation was erroneously reported on the original trade.
3. The source document of the relevant Exchange was input incorrectly.
4. Transfer of Open Positions from one account to another account of a Clearing Member.
5. Transfer of Open Positions from an account of one Clearing Member to an account of another Clearing Member.

Types of Adjustments

The following adjustments are acceptable for Exchange Transactions and OTCI (other than Fixed Income Transactions):

1. Same Day Trade Corrections (T). Same day trade corrections are only permitted on account type, sub-account designation and opening/closing and no corrections are permitted on OTCI Transactions after a Trade Confirmation has been issued by CDCC.
2. Trade Date + 1 Corrections (T+1). Modifications of any type are subject to approval by the relevant Exchange and no corrections permitted on OTCI Transactions.
3. Open Position Changes. For OTCI Transactions, these will be performed through the Position Transfer function of the CDCC Clearing Application. Note: there is a Position Transfer fee per contract.

OPEN POSITIONS

4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another or between accounts of a same Clearing Member on a post trade basis. Note: there is a Position Transfer fee per contract.
5. Standard vs Mini Offset. Upon the receipt of a Request for Standard vs Mini Offset in the prescribed form, CDCC will offset (i) one or more existing Standard Futures Contract Long Position(s) against the equivalent number of existing Mini Futures Contract Short Positions (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Futures Contract) having the same Delivery Month and booked in the same Clearing Member's account, or (ii) a number of existing Mini Futures Long Positions against one or more Standard Futures Short Position(s) (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Futures Contract) having the same Delivery Month and booked in the same Clearing Member's account, based on the instructions provided in the Request for Standard s Mini Offset. Such Long Positions and Short Positions shall be offset at the previous day's Settlement Price, with the effect of reducing the Open Positions that the Clearing Member has on the relevant Series of Futures in the relevant account.

~~The following adjustments are acceptable for Fixed Income Transactions:~~

- ~~1. Open Position Changes. These will be performed through the Position Transfer function of the CDCC Clearing Application. Note: there is a Position Transfer fee per contract.~~
- ~~2. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another or between accounts of a same Clearing Member on a post trade basis. Note: there is a Position Transfer fee per contract.~~

Conditions applicable to adjustments:

If there are any adjustments that affect another Clearing Member (on the opposite side of the original Transaction), both Clearing Members must come to an agreement as to the adjustments to be implemented. If one Clearing Member does not enter any changes through the CDCC Clearing Application, the Transaction will stay as is with respect to both Clearing Members.

Notification of all adjustments must be completed prior to the time specified in Section 2 of this Operations Manual. All completed adjustments are processed when they have been verified and validated by CDCC.

CLEARING MEMBER SECURITY OFFICER

FUTURES

Submission of Tender Notices

Tender Notices must be submitted before Close of Business during the relevant FIFO Period (which, subject to any contract adjustment by the Exchange, shall be as follows):

CGB, CGF and LGB three Business Days prior to the first Business Day of the Delivery Month up to and including the fourth to last Business Day of the Delivery Month.

CGZ two Business Days prior to the first Business Day of the Delivery Month up to and including the third to last Business Day of the Delivery Month.

MCX before Close of Business on the last trading day.

All outstanding Short Positions in BAX, EMF, SXF, SXM, SCF, Sector ~~Index Futures~~ ~~Indices~~, Share Futures, and Options on Futures are automatically tendered on the last trading day, as per Contract Specifications, after Close of Business.

All outstanding Short Positions in ONX, OIS are automatically tendered on the first Business Day of the contract month, as per Contract Specifications, after Close of Business.

Assignment of Tender Notices

CDCC assigns all Tender Notices to open Long Positions on a random basis with the exception of the Government of Canada Bond Futures (CGB, LGB, CGF and CGZ). Assignments for the CGB, LGB, CGF and CGZ Futures are processed on a First-In-First-Out (FIFO) basis.

Delivery of the Underlying Interest and payment of the Settlement Price is effected by Clearing Members as instructed by CDCC.



Risk Manual

INITIAL MARGIN CALCULATION

To calculate the Initial Margin, the Risk Engine uses the MI which is converted to the Scanning Risk parameter. The Scanning Risk parameter represents the difference between the current market value of a Derivative Instrument (for Exchange Transactions) or of an Acceptable Security (for Fixed Income Transactions) and its most unfavourable projected liquidation value obtained by varying the values of the Underlying Interest according to several scenarios representing adverse changes in normal market conditions. The Scanning Risk is always calculated at the Combined Commodity level.

For contracts belonging to the same Combined Commodity, the Risk Engine adds up the Risk Arrays results of all contracts under the same risk scenario. It should be noted that in the situation where the Risk Engine does not consider other variables, the Scanning Risk is the Initial Margin for the Combined Commodity.

However, in some cases other variables can increase or decrease the Scanning Risk. For example, variables such as the Intra-Commodity (Inter-Month) Spread Charge which tends to increase the Initial Margin and the Inter-Commodity Spread Charge which tends to decrease the Scanning Risk to take advantage of the correlations between the different constituents of the Combined Commodity. Another example is the specific case of short deeply out-of-the-money options wherein the Risk Engine calculates a minimum amount called Short Option Minimum (SOM) which otherwise attracts little or no Initial Margin. Finally, in the case of OTCI with Physical Settlement/Delivery, the Corporation calculates an additional Liquidity Interval and adds it to the Margin Interval.

It should also be noted that, as described in the following sections, the determination of the Initial Margin is slightly different for Options contracts, Futures contracts and Fixed Income Transactions. The following table summarizes the list of variables used to calculate the Initial Margin by cleared product category:

INITIAL MARGIN FOR OPTIONS CONTRACTS

| Input variables to calculate the Initial Margin | Options contracts (including OTCI options) | Futures contracts and Share Futures | Fixed Income Transactions |
|--|--|-------------------------------------|---------------------------|
| Scanning Risk | • | • | • |
| Intra-Commodity (Inter-Month) Spread Charge ¹ | | • | • |
| Inter-Commodity Spread Charge ² | | • | • |
| Short Option Minimum (SOM) amount | • | | |
| Liquidity Interval ³ | • | | |

This section describes how the Initial Margin is calculated for the Options contracts, which include the equity options, index options, currency options, exchange-traded-fund options and options on futures.

The Risk Arrays are obtained by varying the Underlying Interest (eight scenarios) and the option's implied volatility (eight scenarios). The term PSR for Options contracts is calculated through the following formula:

$$PSR = \text{Underlying Interest Price} \times MI \times \text{Contract Size}$$

For equity options contracts, the contract size is usually equal to 100.

¹ ~~Not applicable to Share Futures Contracts.~~

² ~~Not applicable to Share Futures Contracts.~~

³ Applicable for OTCI options with Physical Settlement/Delivery only

CLEARING FUND

The Clearing Fund deposits are set out in Rule A-6.

These provisions aim to cover extreme but plausible market conditions. The Clearing Fund is a reserve fund put in place to respond to the deficit that may occur when the Margin Fund and the Difference Fund of a defaulting Clearing Member and its Affiliate(s) no longer cover his market exposure. The Clearing Fund is an obligation shared by all the Clearing Members and this fund is structured to mitigate the Uncovered Residual Risk (“URR”). The URR accounts for the fact that extreme market conditions could generate a major loss the largest Clearing Member and its Affiliate(s), causing the potential default of this Clearing Member and its Affiliate(s).

As it is indicated in Section A-603 of the Rules, the required Clearing Fund contribution of each Clearing Member is composed of Base Deposits plus a Variable Deposit specific to each Clearing Member. Clearing Fund Base Deposits and Variable Deposit could be modified by the Corporation. Clearing Members will be notified of any change pursuant to Section A-604 of the Rules.

MEMBER CONTRIBUTION

For the purposes of application of Rule A-6, the Corporation issues an amount of Deposit to each Clearing Member on a monthly re-evaluation basis of the following elements:

- The size of the Clearing Fund is based on the URR⁴ over the last sixty Business Days. The size is then ~~multiplied~~increased by 115%.
- Each Clearing Member's contribution to the Clearing Fund is equal to the weight ~~on his of its~~ respective Initial Margin over the last sixty Business Days multiplied by the size of the Clearing Fund. Clearing Member's contribution is subject to the Base Deposit.
- The Corporation monitors and controls the size of the Clearing Fund throughout the month and may adjust it upward between monthly re-evaluation. The whole or a specified part of this increase will be assumed by the Clearing Members, who would then receive a margin call, depending on whether the Corporation determines that the size increase is directly influenced by specific Clearing Member(s) or by general market conditions. In the latter, the increase will be distributed among Clearing Members in accordance with the standard allocation process. If the increase is attributable to both situations, the concerned Clearing Member will incur a specific increase on top of the standard allocated increase.

STRESS SCENARIOS

The Corporation uses various stress scenarios to evaluate the URR. Stress scenarios

⁴ The Base Margin used for the Clearing Fund calculation does not include the additional margin for Concentration Risk.

are intended to assess the impact of extreme but plausible market conditions. This resulting potential loss is utilized to determine the size of the Clearing Fund. The stress scenarios are applied on a daily basis in order to estimate the risk exposure.

The Corporation also uses stress tests to monitor the risk of each Clearing Member. Such stress tests take into consideration potential movements in the yield curves, equity return, stock indices return, implied volatility and exchange rate.

The Corporation regularly assesses whether it is appropriate to add other stress scenarios to the existing scenarios.