



NOTICE TO MEMBERS

No. 2016 – 074

June 10, 2016

SELF-CERTIFICATION

AMENDMENTS TO SECTIONS A-102, A-1A01, A-301, A-303 AND A-305 OF THE RULES AND TO THE RISK MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION

NEW CATEGORY OF CLEARING MEMBERS

On October 30, 2015, the Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved amendments to Sections A-102, A-1A01, A-301, A-303 and A-305 of the Rules and to the Risk Manual of the CDCC. The 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 approved by the Ontario Securities Commission in accordance with the “Rule Change Requiring Approval in Ontario” process.

The purpose of the amendments is to create a new category of Clearing Members, the Financial Institution Clearing Member, also referred to as “Centrals”, whose principal purpose will be to provide liquidity support to local cooperative credit societies.

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Rules and the Risk Manual of the CDCC that will be made available on the CDCC website at www.cdcc.ca as of June 10, 2016.

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@cdcc.ca.

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President and Chief Clearing Officer

Canadian Derivatives Clearing Corporation

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APPENDIX 1

(BLACKLINE)

SECTIONS A-102, A-1A01, A-301, A-303, A-305

PART A – GENERAL

RULE A-1 DEFINITIONS

SECTION A-102 DEFINITIONS

“Financial Institution Clearing Member” – means a

Clearing Member that is either

- i) a financial services cooperative regulated pursuant to an Act respecting financial services cooperatives (Québec), or
- ii) 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.

“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.

RULE A-1A MEMBERSHIP IN THE CORPORATION

SECTION A-1A01 – ELIGIBILITY FOR MEMBERSHIP

- a) In order to apply for membership, an applicant must be:
 - i) a member or approved participant in good standing with an exchange recognized in a Canadian province; or
 - ii) a bank or an authorized foreign bank to which the Bank Act (Canada), as amended from time to time, applies; or

- iii) a Financial Institution 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.
- b) A Clearing Member that intends to submit Stock Options or Share Futures to the Corporation for clearing must be a full member participant in good standing with CDS.
- c) A Clearing Member that intends to submit bond Options and/or bond Futures to the Corporation for clearing, must be a full member participant in good standing with CDS.
- d) A Clearing Member that intends to submit physically settled OTCI transactions to the Corporation for clearing, must ensure that it and/or its Client is in good standing and remains as such at all times with the appropriate Market Centres and/or Delivery Agents. Furthermore, and where appropriate, the Clearing Member and/or its Client need to ensure access to a transportation system for the physical transport of the Underlying Interest to the appropriate Market Centres and/or Delivery Agents.
- e) A Clearing Member that intends to submit Futures Contracts on Carbon Dioxide Equivalent (CO₂e) Units with physical settlement to the Corporation for clearing must ensure that at all times it and/or its client is and remains in good standing with the Registry as this term is defined in Section A-102 of the Rules.
- f) A Clearing Member that intends to submit Fixed Income Transactions to the Corporation for clearing must be a full member participant in good standing with CDS.

The Corporation may in its sole discretion waive the requirements set forth in clauses (b), (c), (d) or (f) if the Clearing Member enters into an agency agreement with a full member participant in good standing with CDS, that meets certain requirements established by the Corporation, which agency agreement shall be in form and substance satisfactory to the Corporation, pursuant to which such entity agrees to act as the Clearing Member's agent for the purpose of fulfilling such Clearing Member's obligations to the Corporation under these Rules and the Application for Membership.

RULE A-3 CAPITAL REQUIREMENTS

SECTION A-301 MINIMUM CAPITAL REQUIREMENTS

- 1) Unless a specific temporary exception is made by the Corporation in the case of a particular Clearing Member due to unusual circumstances, a Clearing Member shall not at any time permit its minimum capital to be less than:
 - a) the minimum capital adequacy requirement adopted from time to time by the Investment Industry Regulatory Organization of Canada, for an SRO Clearing Member; or
 - b) the minimum capital adequacy requirement adopted from time to time by the Office of the Superintendent of Financial Institutions, for a Bank Clearing Member; or
 - c) the minimum capital adequacy requirement adopted from time to time by the Regulatory Body having jurisdiction over the Clearing Member, and that is judged by the Corporation to be comparable to such capital adequacy requirement applicable to a Bank Clearing Member, for a Financial Institution Clearing Member.
- 2) Every Clearing Member shall file with the Corporation, on request, a report covering the computation of the capital requirements.
- 3) A Fixed Income Clearing Member, in spite of Subsection A-301(1), must also meet the following criteria:
 - a) if it submits only Firm Fixed Income Transactions,
 - i) have minimum capital of \$50,000,000 and be a primary dealer for government securities auctions for the Bank of Canada; or
 - ii) have minimum capital of \$100,000,000.
 - b) if it submits both Firm Fixed Income Transactions and Client Fixed Income Transactions, have minimum capital of \$200,000,000.
 - c) for the purpose of this Subsection A-301(3), “capital” means the Clearing Member’s shareholder’s equity as reflected in its most recent financial statement filed with the Investment Industry Regulatory Organization of Canada or with Office of the Superintendent of Financial Institutions or the Regulatory Body having jurisdiction over the Clearing Member, as the case may be, in accordance with Section A-305, which financial statement is updated on a monthly basis or quarterly basis, as applicable. The Corporation may also, in its sole discretion, take into consideration other forms of capital as a substitute for shareholder’s equity, including the subordinated debt of the Clearing Member or an irrevocable parent company guarantee covering the Clearing Member satisfactory to the Corporation.
 - d) for the purpose of this Subsection A-301(3), “Firm Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for its own account and for the account of any of its Affiliates, and “Client Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for the account of any of its Clients, other than any of its Affiliates.

SECTION A-303 EARLY WARNING

A Clearing Member shall notify the Corporation immediately if such a Clearing Member has any indication or suspicion that it may not meet the minimum capital adequacy requirements prescribed in Section A-301 or that any calculation of its capital requirement, as determined from time to time by the Corporation, reflects a capital deficiency or early warning situation as provided in this Section A-303.

An SRO Clearing Member shall advise the Corporation immediately if such Clearing Member enters any early warning level (as defined from time to time by the Investment Industry Regulatory Organization of Canada.)

A Bank Clearing Member shall advise the Corporation immediately if such Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the Office of the Superintendent of Financial Institutions.

A Financial Institution Clearing Member shall advise the Corporation immediately if such Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the Regulatory Body having jurisdiction over such Clearing Member.

SECTION A-305 FILING PROCEDURES

1) Each SRO Clearing Member shall deliver to the Corporation one copy of Parts I and II of the Joint Regulatory Financial Questionnaire and Report, together with the certificate of partners or directors, as required by the self-regulatory body of which such SRO Clearing Member is a member, in the form prescribed by such self-regulatory body at the same time such documents are provided to the self-regulatory body.

2) Each Bank Clearing Member shall deliver to the Corporation one copy of the Capital Adequacy Return, as required by the Office of Superintendent of Financial Institutions, in the form prescribed by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions, and one copy of its annual financial statements, in the form prescribed by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions.

2)3) Each Financial Institution Clearing Member shall deliver to the Corporation one copy of such report as required and in the form prescribed by the Regulatory Body having jurisdiction over such Clearing Member demonstrating the Clearing Member's compliance with the capital adequacy requirement applicable to it and one copy of its annual financial statements, in the form prescribed by the Regulatory Body and at the same time such documents are provided to the Regulatory Body.

APPENDIX 2: (BLACKLINE)

RISK MANUAL

(...)

DIFFERENCE FUND

(...)

Daily Capital Margin Monitoring:

The Corporation measures the credit exposure to its Clearing Members on a daily basis through the Daily Capital Margin Monitoring Calls (DCMM). The capital level is derived from regulatory reports received on a monthly basis in a timely manner (and on a quarterly basis if it is a Bank Clearing Member).

As prescribed in Section A-710 of the Rules, the Corporation may call for a contribution in the Difference Fund from Members that are undercapitalized in relation to their respective Initial Margin. The Corporation compares the Clearing Member's capital amount to the Initial Margin¹ on a daily basis and requires, if applicable, that the Clearing Member makes up any difference in the form of acceptable Deposits. Each Clearing Member's capital is analyzed and updated on a monthly basis.

In order to determine the contribution to the Difference Fund of Clearing Members, the Corporation uses the Net Allowable Assets (NAA). The Net Allowable Asset is a more restrictive type of capital, since it is the net result of the financial statement capital less the non allowable assets. Non allowable assets are composed of less liquid assets like capitalized leases, Investments in and Advances to Subsidiaries, etc. For Bank Clearing Members, the Corporation uses the Net Tier 1 capital.

The Corporation has access to the Clearing Member's financial statements from the CIPF (Canadian Investor Protection Fund), ~~and~~ the OSFI (Office of the Superintendent of Financial Institutions Canada) for Bank Clearing Members or a Regulatory Body for a Financial Institution Clearing Member.

(...)

¹ The Initial Margin used for DCMM calculation does not include the additional margin for Concentration Risk.