



## NOTICE TO MEMBERS

No. 2010 – 115

November 24, 2010

### REQUEST FOR COMMENTS

#### OMNIBUS PROJECT AMENDMENT TO RULES AND OPERATIONS MANUAL OF CDCC

##### Summary

The Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Rules and Operations Manual of CDCC. The purpose of the proposed amendment is to (i) remove letters of credit and bankers' acceptances as acceptable forms of margin deposits; (ii) prohibit pledging of securities of affiliates for purposes of margin deposits; (iii) limit pledging of equity to a maximum of 15% of the total margin; and (iv) allow and provide for a real-time gross settlement process for fixed income cash transactions and open legs of Repo transactions.

Please find enclosed an analysis document as well as the proposed amendments.

##### Process for Changes to the Rules

CDCC is a recognized self-regulatory organization (SRO) by the Autorité des marchés financiers (AMF) and as such, carries on activities as a clearing house and as an SRO in Québec.

The Board of Directors of CDCC has the power to approve the adoption or amendment of Rules of CDCC. The amendments are submitted to the AMF in accordance with the self-certification process.

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##### Canadian Derivatives Clearing Corporation

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Comments on the proposed amendments must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

*François Gilbert*  
*Assistant Secretary*  
*Canadian Derivatives Clearing Corporation*  
*Tour de la Bourse*  
*P.O. Box 61, 800 Victoria Square*  
*Montréal, Québec H4Z 1A9*  
*E-mail: [legal@m-x.ca](mailto:legal@m-x.ca)*

A copy of these comments shall also be forwarded to the AMF to:

*Anne-Marie Beaudoin*  
*Corporate Secretary*  
*Autorité des marchés financiers*  
*Tour de la Bourse, P.O. Box 246*  
*800 Victoria Square, 22<sup>nd</sup> Floor*  
*Montréal, Québec H4Z 1G3*  
*E-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)*



## OMNIBUS PROJECT

### AMENDMENT TO RULES AND OPERATIONS MANUAL OF CDCC

#### A. Overview

In the context of the upcoming providing of Central Counterparty and Netting Utility for Fixed Income Securities as well as a possible designation under the *Payment Clearing and Settlement Act* (Canada) as a “designated clearing and settlement system”, CDCC is proposing to amend its Rules and Operations Manual in order to (i) remove letters of credit and bankers’ acceptances as acceptable forms of margin deposits; (ii) prohibit pledging of securities of affiliates for purposes of margin deposits; (iii) limit pledging of equity to a maximum of 15% of the total margin; and (iv) allow and provide for a real-time gross settlement process for fixed income cash transactions and open legs of Repo transactions.

Additionally, CDCC is proposing to amend its Rules to clarify the definition of “Netting Cut Off Time” under Section A-102 as well as CDCC’s rights relating to close-out netting under Section A-401.

#### B. Proposed Amendments

CDCC hereby proposes to amend its Rules and Operations Manual as follows:

- References to letters of credit and/or bankers’ acceptances as acceptable forms of margin deposits would be removed from the relevant provisions of the Rules and Operations Manual of CDCC. In particular, Sections A-102, A-402, A-709 and C-303 of the Rules of CDCC, Section 4 of Schedule A (Risk Manual), Section 1.3 of Appendix 1 (Default Manual), as well as Schedule B (Depository Agreements) of the Operations Manual of CDCC would be amended accordingly.
- Paragraph A-709(3)(a) of the Rules of CDCC would be amended to provide that clearing members may deposit any equity security listed on the Toronto Stock Exchange or the TSX Venture Exchange (such security, a “Valued Security”) against their total margin requirements.
- A new Paragraph A-709(3)(e) providing that for each clearing member, no more than 15% of the total margin required against all of its accounts combined may be covered by Valued Securities would be added to the Rules of CDCC.
- A new Paragraph A-709(3)(f) providing that no value will be given for any Valued Securities deposited by a clearing member if such Valued Securities are issued by an affiliate of such clearing member would be added to the Rules of CDCC.
- A new Subsection D-606 (10) providing that all payment and delivery obligations in respect of same day transactions which are due on the applicable trade date will not be settled on a net basis, but will be settled on a gross basis on the applicable trade date immediately following the novation of each same day transaction would be added to the Rules of CDCC; Section D-601 of the Rules of CDCC would be amended to add definitions of “Open Leg” and “Same Day Transaction”; and Sections 2, 5, 6 and 7 of the Operations Manual of CDCC would be amended to allow and provide for the foregoing.

#### C. Rationale and Objectives

During the last few months, CDCC has been working extensively with the Bank of Canada and the fixed income community in connection with CDCC’s new fixed income clearing services and potential designation

of its infrastructure as systemically important to the financial system of Canada. In this context, CDCC was requested to review its practices with regards to acceptable collateral and netting process.

The purpose of the proposed amendments to the Rules and Operations Manual of CDCC is to improve CDCC's risk management and follow recommendations of the International Organization of Securities Commissions (IOSCO), especially Section 3.3 of the *Guidance on the application of the 2004 CPSS-IOSCO Recommendations for Central Counterparties to OTC derivatives CCPs*, issued in May of 2010, which addresses concentration risk.

Since the Canadian banking system includes a limited number of financial institutions, additional strain would be put on CDCC's infrastructure if a bank owned broker were to fail. The regulatory changes that CDCC is proposing address such risk.

1. Removal of letters of credit and bankers' acceptances as acceptance forms of margin deposits

CDCC proposes to remove letters of credit and bankers' acceptances as acceptable forms of margin deposits given the concentration risk of such instruments and whereas, being promises to pay, they may not be seized forthwith.

2. Prohibition of pledging of securities of affiliates and limitation of equity for purposes of margin deposits

CDCC proposes to prohibit the pledging of securities of affiliates for purposes of margin deposits to avoid the concentration risk that it represents.

CDCC also proposes to limit pledging of equity to a maximum of 15% of the total margin as, in the case of a default where CDCC would need to liquidate, it could negatively impact the stock markets.

3. Real-time gross settlement process for fixed income cash transactions and open legs of Repo transactions

Under the existing netting process, a single netting cut-off in the early afternoon is involved. This allows for all transactions to be included within the net settlement for that business day. The purpose of this model is to ensure operational efficiency and the minimization of related settlement costs.

However, after further consideration, it appears that a single settlement period would prove problematic in the Canadian context. The limited number of participants in the Canadian fixed income marketplace with a single settlement cycle could potentially lead to settlement congestion. Therefore, CDCC proposes to allow and provide for separate processes for settlement.

Same day settlement trades would be settled on a real-time gross basis throughout the day. This would apply to fixed income cash transactions and open legs of Repo transactions.

Forward dated settlements would be included in the existing net settlement process.

This proposed amendment should provide for the operational efficiencies sought after by market participants without exposing CDCC to incremental risk given that:

- Novation of the transaction is immediate if it satisfies the acceptance criteria provided for in Schedule A (Risk Manual) of the Operations Manual of CDCC;
- If a same day settlement trade is novated, it is immediately settled with no time delay, thereby improving the risk profile of CDCC; and
- The process to settle forward dated settlements begins earlier and alleviates the possibility of settlement fails.

**D. Public Interest**

These amendments to the Rules and Operations Manual of CDCC are proposed to improve CDCC's risk management and its fixed income clearing services.

**E. Process**

The proposed amendment to the Rules and Operations Manual of CDCC is presented to the Board of Directors of CDCC for approval and will then be transmitted to the *Autorité des marchés financiers* in accordance with the self-certification process and to the Ontario Securities Commission for information.

**F. Attached Documents**

- Rule A-1
- Rule A-4
- Rule A-7
- Rule C-3
- Rule D-6
- Operations Manual

## **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” – Over-The-Counter Instruments which are determined by the Corporation as acceptable for clearing with the Corporation.

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

“Acceptable Marketplace” – 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” – a Security determined by the Corporation as acceptable for purposes of clearing a Transaction, a list of which is updated on a bimonthly basis by the Corporation and communicated by notice to Clearing Members.

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

“Additional Deposit” - the additional amount which may be required to be added to a Clearing Fund deposit pursuant to Section A-606.

“Affiliate” – means, in relation to any Clearing Member, any Entity controlled, directly or indirectly, by the Clearing Member, any entity that controls, directly or indirectly, the Clearing Member, or any Entity directly or indirectly under common control with the Clearing Member. For this purpose, “control” of any Clearing Member or Entity means ownership of a majority of the voting power of the Clearing Member or Entity.

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

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

“Approved Depository” - a financial institution approved under Section A-613.

“Approved Processes” – any system 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” - 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” - a call Option or a put Option with an Exercise Price that is equal to the Market Price of the Underlying Interest.

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

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

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

“Board” - the Board of Directors of the Corporation.

“Business Day” - any day on which the Corporation is open for business. The term Business Day shall exclude the Expiration Date of any Options which expires on a Saturday.

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

“Capital Adequacy Return (CAR)” – 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.

“CDCC Materials” – 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 software, trade-marks, logos, domain names, documentation, Approved Processes, technical information, systems, hardware and networks made available by the Corporation to the Clearing Members for the use of the clearing systems and electronic transmission systems provided by the Corporation to the Clearing Members.

“CDS” – 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” – any central securities depository acceptable to the Corporation, including CDS.

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

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

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

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

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

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

“Client Account” - 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” – the account established by Section A-403.

“Close of Business” – 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” - 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” – 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” - 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” – 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” – 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.

“Confirmation Transmission” – 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” – daily report listing either Options, Futures or OTCI transactions.

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

“Corporation or CDCC” – Canadian Derivatives Clearing Corporation.



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

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

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

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

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

“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” – the report created by the Corporation on a daily basis reporting the aggregate position held by a Clearing Member, which also contains the Settlement of Gains and Losses for that Clearing Member for that day.

“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” – Situation 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 materially affecting the Corporation’s operations.

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

“Escrow Receipts” - a receipt, in a form acceptable to the Corporation, issued by an Approved Depository.

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

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

“Exchange Transaction” - 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” - 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” - the position of a Clearing Member in any account in respect of Transactions providing optionality to the holder and which may have been exercised by such Clearing Member in such account.

“Exercise Price” - 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” - 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” - the date prescribed by the relevant Exchange within Contract Specifications of a particular Option.

“Expiration Date” - unless otherwise specified the Saturday immediately following the third Friday of the month and year in which the Option expires.

“Expiration Time” - the time on the Expiration Date, as fixed by the Corporation, at which the Option expires. Unless changed by the Corporation, the Expiration Time shall be 12:30 p.m. on the Expiration Date.

“Expiry Response Screen” - 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 Section A-804(1) with respect to the delivery of an Acceptable Security, (ii) in Section B-407 with respect to the delivery under an Option, (iii) in Section C-512 with respect to the delivery under a Future of an Underlying Interest other than an Acceptable Security, or (iv) in Section D-304 with respect to the delivery under an OTCI that is not a Fixed Income Transaction.

“Firm” - a Clearing Member acting for its own account.

“Firm Account” - 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 assigned to this term by Section D-601.

“Fixed Income Transaction” – has the meaning assigned to this term by Section D-601.

“Forward Curve” – 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” – 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” - 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 Margin Receipt” - a receipt, in a form acceptable to the Corporation, issued by an Approved Depository.

“Futures Sub-Accounts Consolidated Activity Report” – 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.

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

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

“In-the-Money-Option” - 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” shall mean:

~~a) 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; or~~

~~b) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder;~~

but does not include a security.

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

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

“Margin Deposit” – means, collectively,

- a) any and all Securities, Money, 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 Margin, Base Deposit, Additional Deposit, Variable Deposit, Safe Custody Receipts, Escrow Receipts, Futures Margin Receipts, ~~letters of credit~~, puts and any other form of deposit as 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” – the value determined by the Corporation representing the liquidation value of a Transaction or account held by a Clearing Member as defined in Section D-202.

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

“Market Maker” - 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” - 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” - the aggregate price of the Unit of Trading of the Underlying Interest as determined by the Exchange or Exchanges involved.

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

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

“Money” - means the lawful currency of Canada or its equivalent in the lawful currency of any other country of the G-8.

“Multi-Purpose Account” – 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” – the amount shown on a report (“Daily Settlement Summary Report”).

“Net Delivery Requirement” – with respect to Acceptable Securities, 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)(c); and with respect to any Underlying Interest of an OTCI that physically settles other than Acceptable Securities, the quantity of such Underlying Interest needed to be delivered through the relevant Delivery Agent by or to a Clearing Member, expressed on a net basis, in accordance with Section D-303.

“Net Payment Against Delivery Requirement” – 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)(b).

“Netted Client Account” – 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, ~~the~~<sup>the</sup> 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 assigned to this term by Section A-1A04.

“Notional Quantity” - the size of the OTCI transaction expressed either outright, or in accordance with the Unit of Trading and the number of contracts underlying the OTCI transaction.

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

“Opening Buy Transaction” - 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” - 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” - 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” - 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” – 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” - a contract which, unless otherwise specified, gives the buying Clearing Member the right to buy (a call) or sell (a put) a specified quantity of an Underlying Interest at a fixed 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” – put Option or call Option.

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

“Out-of-the-Money Option” - 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” – refers to any bilaterally negotiated transactions as well as any transactions concluded on any Acceptable Marketplaces.

“Postponed Payment Obligation” – with respect to the Corporation, the amount by which its net payment obligation 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 and the payment by the Corporation of such reduction has been postponed until full delivery by the Provider of Securities in accordance with Section A-804(1); and with respect to a Clearing Member who is a Receiver of Securities, the amount by which its net payment obligation 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 and the payment by such Clearing Member of such reduction has been postponed until full delivery by the Corporation in accordance with Section A-804(2).

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

“Product Type” – 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” - a Clearing Member who owes a net amount of an Acceptable Security to the Corporation in accordance with Subsection D-606(3) and Paragraph A-801(2)(c).

“Receiver of Securities” - a Clearing Member who is owed a net amount of an Acceptable Security by the Corporation in accordance with Subsection D-606(3) and Paragraph A-801(2)(c).

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

“Registry” - any registry designated by the Corporation which, for the purpose of clearing Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units, 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.

“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” – 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 quantity of a given Acceptable Security that it has failed to deliver to the Corporation under a net delivery obligation under Section A-801(2)(c) on the Business Day it was due, which is rolled into the calculation of the next Business Day’s net delivery obligation (and the net delivery obligation of each subsequent Business Day) of such Clearing Member, in accordance with, and until such time as set out under, Section A-804(1); and with respect to the Corporation and a Clearing Member who is a Receiver of Securities, the quantity of a given Acceptable Security that the Corporation has failed to deliver to such Clearing Member under a net delivery obligation under Section A-801(2)(c) on the Business Day it was due (as a direct consequence of a Provider of Securities’ failure to deliver all or a part of its net delivery obligations 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 obligation (and the net delivery obligation of each subsequent Business Day) in favour of such Clearing Members, in accordance with, and until such time as set out under, Section A-804(2).

“Rules” - shall mean 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” - a Clearing Member that is within the audit jurisdiction of the Investment Industry Regulatory Organization of Canada.

“Safe Custody Receipt” - a receipt, in a form acceptable to the Corporation, issued by an Approved Depository.

“Security” - shall mean 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” - all Futures of the same class covering the same quantity of an Underlying Interest and having the same delivery month.

“Series of Options” - 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 set out in Section A-217.

“Settlement Amount” - 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” - the settlement with the Corporation of the gains and losses on Open Positions in Futures pursuant to Section C-302.

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

“Settlement Time” - means, with respect to a 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 Business Day immediately following a trade day, a calculation date or a 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 in respect of such Business Day, trade day, calculation date or Coupon Payment Date must be submitted to the Corporation.

“Short Position” - 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”



- 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” - 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” - 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).

“Tender Notice” - 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.

“Trade Confirmation” – 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” - the price agreed upon for the Future when the contract is entered into on an Exchange.

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

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

“Uncovered Residual Risk” – 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 an extreme but plausible market stress test scenario. This Uncovered Residual Risk is calculated and attributed to Clearing Members through their Clearing Fund contribution.

“Underlying Interest” - 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” - the items specified in Section A-708.

“Unit of Trading” – in respect of any Series of Futures and Series of Options and any Fixed Income Transaction means the number of units of the Underlying Interest which has been designated by the Corporation and the Exchange on which the Derivative Instrument is traded (as applicable) as the number to be the subject of a single Future or Option contract or of the Acceptable Security, as applicable.

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

## RULE A-4 ENFORCEMENT

### Section A-401 Action against a Non-Conforming Member

- (1) In addition to a measure made available to the Corporation under the Rules and the Application for Membership to remedy a specific or general default of a Clearing Member, where a Clearing Member is a Non-Conforming Member, the Corporation may take any one of the actions prescribed by the Rules in respect of such Clearing Member including, but not limited to:
  - (a) prohibiting and/or imposing limitations on the acceptance and/or clearance of Transactions by such Clearing Member;
  - (b) requiring such Clearing Member to reduce or close out (or closing out on behalf of such Clearing Member) existing Transactions in such Clearing Member's accounts with the Corporation and, upon such close out, converting all amounts into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation;
  - (c) requiring such Clearing Member to transfer any account maintained by such Clearing Member with the Corporation, any position maintained in any such account, or any account carried by such Clearing Member, to another Clearing Member;
  - (d) applying the Margin Deposit (including, without limitation, Margin and Clearing Fund) of the Non-Conforming Member, subject to Subsection A-402(3);
  - (e) sanctioning, reprimanding, fining or imposing a penalty on it;
  - (f) prevent or restrict the Clearing Member's right to withdraw any excess in Margin Deposits pursuant to Section A-607 or Section A-704; and
  - (g) suspending the Non-Conforming Member.
- (2) The actions contemplated by the Rules in respect of Non-Conforming Members may be taken in any sequence the Corporation deems appropriate.

### Section A-402 Creation of Liquidating Settlement Account

- (1) Upon the suspension of a Clearing Member, the Corporation may convert to cash all Margin Deposits with the Corporation by such Clearing Member in all accounts (including Securities held in bulk deposit but excluding Securities held in specific deposit) including all of such Clearing Member's contributions to Clearing Funds; ~~provided, however, that if the issuer of a letter of credit deposited by such Clearing Member shall agree in writing to extend the irrevocability of its commitment thereunder in a manner satisfactory to the Corporation, the Corporation may, in lieu of demanding immediate payment of the face amount of such letter of credit, but reserving its right thereto, demand only such amounts as it may from time to time deem necessary to meet anticipated disbursements from the Liquidating Settlement Account provided for below.~~ These and all other funds of the suspended Clearing Member subject to the control of the Corporation shall be placed by

the Corporation in a special account, to be known as the Liquidating Settlement Account, for the purposes hereinafter specified.

- (2) Notwithstanding the provisions of Subsection A-402(1), if the Corporation shall determine in its sole discretion, taking into account the size and nature of a suspended Clearing Member's Margin Deposits, the market condition prevailing at the time, the potential market effects of liquidating transactions that might be directed by the Corporation, and such other circumstances that the Corporation deems relevant, that the conversion to cash of some or all of the suspended Clearing Member's Margin Deposits would not be in the best interest of the Corporation, other Clearing Members or the general public, such deposits need not be converted to cash, provided that any determination made pursuant to this Subsection shall be reported to the Board within 24 hours.
- (3) Notwithstanding the provisions of Subsection A-402(1) and Subsection A-402(2), Margin Deposits with respect to a Client Account shall only secure the performance by the Clearing Member of its obligations in respect of that Client Account, and Margin Deposits with respect to a Market Maker Account shall only secure the performance by the Clearing Member of its obligations in respect of that Market Maker Account; provided, however, that if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation shall use Margin Deposits without distinction as securing all the obligations of the Clearing Member in respect of all its accounts.

#### **Section A-403 Pending Transactions**

- (1) Transactions submitted by a Clearing Member after it has been suspended shall be accepted or rejected by the Corporation in accordance with the regulations, rules and policies of the Exchange or Acceptable Marketplace on which they took place, and in the event that an Exchange Transaction is rejected, it shall be closed by the Clearing Member thereto in accordance with the Rules or in accordance with the regulations, rules and policies of the Exchange or Acceptable Marketplace on which the transaction was effected.
- (2) With respect to Open Positions and accepted Transactions:
  - (a) monies payable to the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation in the Client Account shall be deposited by the Corporation in a Clients Settlement Account for remittance to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law;
  - (b) monies payable to the suspended Clearing Member in Settlement of Gains and Losses in the respective Market Maker Accounts shall be held in such accounts pending the closing of all Open Positions and transactions in such accounts for application in accordance with the applicable Market Maker Account agreement;
  - (c) monies payable to the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-To-Market Valuation in the Firm Account (as well as in the Market Maker Accounts) shall be credited by the Corporation to the Liquidating Settlement Account;

- (d) monies owed to the Corporation in Settlement of Gains and Losses and/or Mark-To-Market Valuation in any account shall be withdrawn by the Corporation from the Liquidating Settlement Account;
- e) monies owed to the Corporation in Settlement Amounts for settlements not yet paid, will remain in the Liquidating Settlement Account in the form of Margin Deposits until the next available Settlement Time consistent with the Transaction from which the Settlement Amounts were derived;
- f) monies payable to the suspended Clearing Member in Settlement Amounts for settlements not yet paid, will remain in the Liquidating Settlement Account in the form of Margin Deposits until the next available Settlement Time consistent with the Transaction from which the Settlement Amounts were derived.

#### **Section A-404 Open Positions**

- (1) Open Positions of a suspended Clearing Member, may, in the Corporation's sole discretion, be closed by the Corporation at such price as the Corporation deems reasonable, transferred to another Clearing Member or maintained by the Corporation. Amounts payable to the Corporation in Settlement of Gains and Losses and/or Mark-to-Market Valuation, as a result of closing transactions effected by the Corporation shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; provided, however, that amounts payable to the Corporation in Settlement of Gains and Losses in a Market Maker Account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account. Amounts receivable by the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation as a result of a closing transaction effected by the Corporation or the transfer of an Open Position shall be credited to the suspended Clearing Member's Liquidating Settlement Account. Clients affected by any closing or transfer of an Open Position shall be notified as promptly as possible.
- (2) With respect to Options:
  - (a) Open Long Positions in the Client Account of a suspended Clearing Member shall be maintained by the Corporation. The Corporation shall promptly use its best efforts to identify each Client having a Long Position in such account, to transfer each such Client's Long Position to another Clearing Member, and to notify each such Client of such transfer; in the event that notwithstanding the best efforts of the Corporation any Long Position in a Client Account of a suspended Clearing Member cannot promptly be transferred to another Clearing Member, such Long Position may be closed by the Corporation in the most orderly manner practicable and the proceeds shall be deposited in a Clients Settlement Account;
  - (b) Open Long Positions in any Market Maker Account of a suspended Clearing Member shall be closed by the Corporation in the most orderly manner practicable and the proceeds of such closing transactions shall be held in such account pending the closing out of all Open Positions and transactions for application in accordance with the applicable Market Maker Account Agreement;
  - (c) Open Long Positions in a suspended Clearing Member's Firm Account shall be closed by the Corporation in the most orderly manner practicable, and the proceeds of such closing

transactions shall be credited by the Corporation to the suspended Clearing Member's Liquidating Settlement Account; and

- (d) Open Short Positions in any account of a suspended Clearing Member may, in the Corporation's sole discretion, be closed by the Corporation at such price as the Corporation deems reasonable, transferred to another Clearing Member, or maintained by the Corporation. Amounts payable to the suspended Clearing Member in settlement of Closing Purchase Transactions effected by the Corporation shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; provided, however, that amounts payable to the suspended Clearing Member in settlement of Closing Purchase Transactions in a Market Maker Account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account. Clients affected by any closing or transfer of a Short Position, if known to the Corporation, shall be notified as promptly as possible.
- (3) If the Corporation elects or is required pursuant to this Section A-404 to close both Long Positions and Short Positions in the same series of Options or Futures carried by a suspended Clearing Member, the Corporation may, in lieu of closing such positions through closing transactions on an Exchange, offset such positions against each other, reducing the Open, Long and Short Positions of the Clearing Member in such series by the same number of Option contracts or Futures contracts. If the Corporation closes positions in any series of Options or Futures by offset pursuant to the foregoing sentence, the Corporation shall notify the suspended Clearing Member or its representative thereof, and such positions shall be deemed to have been closed at a price equal to the closing Market Price as determined by the Exchange involved for such series on the date when the positions were offset.
- (4) Notwithstanding the provisions of Subsection A-404(3), if the Corporation, through an officer or designated representative, shall determine in its sole discretion, taking into account the size and nature of a suspended Clearing Member's positions, the market conditions prevailing at the time, the potential market effects of liquidating Transactions that might be directed by the Corporation, and such other circumstances as the Corporation deems relevant, that the closing out of some or all of the suspended Clearing Member's Transactions would not be in the best interests of the Corporation, other Clearing Members or the general public, such positions need not be closed out, provided that any determination made pursuant to this Subsection shall be reported to the Board within 24 hours.
- (5) If the Corporation, through an officer or its other designated representative shall:
  - (a) determine that the Corporation is unable, for any reason, to close out in a prompt and orderly fashion, any Transactions or to convert to cash any Margin Deposits of a suspended Clearing Member, or
  - (b) elect pursuant to Subsection A-404(4) not to close out any such Transactions or pursuant to Subsection A-402(2) not to convert to cash any such Margin Deposits, the Corporation may authorize the execution from time to time for the account of the Corporation, solely for the purpose of reducing the risk to the Corporation resulting from the continued maintenance of such positions or the continued holding of such Margin Deposits, of hedging transactions, including, without limitation, the purchase or sale of Underlying Interests or interests deemed similar thereto or Transactions on any such Underlying Interests or similar interests. The Corporation may delegate to specified officers or agents of the Corporation the

authority to determine, within such guidelines, if any, as the Corporation may prescribe, the nature and timing of such hedging transactions. Any authorizing of hedging transactions shall be reported to the Board within 24 hours, and any such transactions that are executed shall be reported to the Board on a daily basis. Hedging transactions effected for the account of the Corporation pursuant to this Paragraph shall be closed out or exercised promptly as the positions to which they relate are eliminated, whether by expiration, transfer, close out or assignment. Any cost or expenses, including losses sustained by the Corporation in connection with Transactions effected for its account pursuant to this Paragraph shall be charged to the Liquidating Settlement Account of the suspended Clearing Member, and any gains realized on such Transaction shall be credited to such Liquidating Settlement Account; provided, however, that costs, expenses and gains related to the hedging of positions in a Market Maker Account or a Client Account shall be charged or credited, as the case may be, to that account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account. Reasonable allocations of costs, expenses and gains among accounts made by the Corporation for the purpose of implementing the proviso to the preceding sentence shall be binding on the Clearing Member and any persons claiming through the Clearing Member and the respective successors and assigns.

#### **Section A-405 Exercised Options and Tender Notices**

Unless the Corporation stipulates otherwise in a particular case, exercised Options to which a suspended Clearing Member is a party or Futures which have been the subject of Tender Notice to which a suspended Clearing Member is a party shall be closed through the procedures set forth in Sections B-404, B-405, C-510 and C-511, respectively, except that the Corporation may decide not to buy-in or sell-out, as the case may be, in the event that the Corporation is informed that the Underlying Interest is in transit or transfer. All losses and gains on such buy-ins and sell-outs shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member; provided, however, that all losses on such buy-ins and sell-outs in a Market Maker Account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account.

#### **Section A-406 Amounts Payable to the Corporation**

The Corporation shall be entitled promptly to recover from a suspended Clearing Member, any amount payable to the Corporation in accordance with these Rules, including all costs and expenses, including legal expenses, incurred by the Corporation, from such Clearing Member's Liquidating Settlement Account with the Corporation upon completion of the liquidation of such Clearing Member's positions in accordance with this Rule A-4.

#### **Section A-407 Member Claims**

All claims upon the Liquidating Settlement Account of a suspended Clearing Member by other Clearing Members resulting from losses incurred when closing pending transactions, or closing Open Positions or in the delivery of Underlying Interests or buying in or selling out exercised Options in accordance with this Rule A-4 shall be filed with the Corporation in the form prescribed. Such claims shall be paid as follows:

- (1) Claims for losses incurred when closing pending transactions with a suspended Clearing Member that are rejected for clearance shall be subordinate to all other claims upon the Liquidating Settlement Account. The Corporation shall pay such claims, to the extent funds are available, from the Liquidating Settlement Account of the suspended Clearing Member only after payment of all other applicable claims, and such claims shall not constitute a claim upon the Clearing Fund contributions of other Clearing Members; and
- (2) Claims for losses incurred on buy-ins and sell-outs, and the closing of Open Positions, shall be senior to all other claims upon the Liquidating Settlement Account. If a buy-in, sell-out or closing transaction does not occur by the close of the first full Business Day immediately following the issuance of the notice of suspension, the claim thereon shall be limited to the amount that would have been recoverable if, in the case of a buy-in or sell-out, the buy-in had been made at the highest price or the sell-out at the lowest price at which the Underlying Interest traded in the market in which it trades, on the first full Business Day or, in the case of the closing of Open Positions, if the positions had been closed by the close of the first full Business Day.

#### **Section A-408 No Waivers**

No failure by the Corporation to exercise, nor any delay on its part in exercising, any of its rights (in whole or in part) under these Rules shall operate as a waiver of the Corporation's rights or remedies upon that or any subsequent occasion, nor shall any single or partial exercise of any right or remedy prevent any further exercise thereon or any other right or remedy.

## RULE A-7 MARGIN REQUIREMENTS

### Section A-701 Margin Maintenance and Purpose

- (1) Prior to the Settlement Time on every Business Day, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation, in respect of
  - (a) each Long Position,
  - (b) each Short Position,
  - (c) each Assigned Position,
  - (d) each exercised Option position, and
  - (e) each tendered Futures position

in each account maintained by such Clearing Member with the Corporation at the opening of such Business Day, including each such position that arises out of a Transaction having a Settlement Time on such Business Day, but excluding Options Short Positions and Assigned Positions for which either the underlying Interest or the Underlying Interest Equivalent as specified in Section A-708 has been deposited with the Corporation. When determining whether additional Margin is required from a Clearing Member, the Corporation shall take into account, subject to Subsection A-704(2), all Margin Deposits deposited by or on behalf of such Clearing Member with the Corporation (and not returned to such Clearing Member).
- (2) The Corporation shall apply the Non-Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), subject to Subsection A-701(3), to the discharge of:
  - (a) the Non-Conforming Member's obligation with respect to any Transaction accepted by the Corporation, whether such failure is caused or not by the Non-Conforming Member;
  - (b) a failure or anticipated failure to make any payment to the Corporation required of a Non-Conforming Member, whether such failure is attributable to the Non-Conforming Member or not;
  - (c) any loss or expense anticipated or suffered by the Corporation upon the liquidation of the Non-Conforming Member's position;
  - (d) any loss or expense anticipated or suffered by the Corporation pertaining to the Non-Conforming Member's obligations in respect of exercised Options or tendered Futures or OTCI for which settlement has not yet been made or in connection with hedging transactions effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Member's positions in Options, Futures and OTCI;
  - (e) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Clearing Member's positions in Options and Futures;



- (f) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Clearing Member's positions in any OTCI; or
- (g) any other situation determined by the Board.

(3) Each Clearing Member grants to and in favour of the Corporation a first ranking pledge of, lien on and security interest and hypothec in, all property including, without limitation, property deposited as Margin Deposit (including, without limitation, Margin and Clearing Fund) deposited by the Clearing Member with the Corporation or which may, from time to time be in the possession or control of the Corporation, or in the possession or control of a person acting on behalf of the Corporation, to secure the performance by the Clearing Member of all of its obligations to the Corporation, provided, however, that Margin Deposits with respect to a Client Account shall only secure the performance by the Clearing Member of its obligations in respect of that Client Account, and Margin Deposits with respect to a Market Maker Account shall only secure the performance by the Clearing Member of its obligations in respect of that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation shall use all Margin Deposits without distinction as securing all the obligations of the Clearing Member in respect of all its accounts. The Clearing Member shall execute and deliver to the Corporation such other documents as the Corporation may from time to time request for the purpose of confirming or perfecting the pledge, lien, security interest and hypothec provided 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 such documents shall not limit the effectiveness of the foregoing sentence.

(4) Without limiting the rights of the parties under Subsection A-701(2) and Section A-704, at the sole discretion of the Corporation, all property deposited with the Corporation as Margin Deposit (including, without limitation, Margin and Clearing Fund) by the Clearing Member 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. The Corporation shall be deemed to continue to hold all Margin Deposit deposited with the Corporation, regardless of whether the Corporation has exercised its rights under this Subsection 701(4).

#### **Section A-702 Discretionary Margin Rule**

The amount of Margin which a Clearing Member may otherwise be required to deposit with the Corporation pursuant to this Rule A-7 may be varied by the Corporation at any time and from time to time without advance notice whenever the Corporation, in its sole discretion, considers such variation necessary or advisable for the protection of the Corporation, Clearing Members or the investing public.

#### **Section A-703 Daily Margin Activity Report**

- (1) Each Business Day, the Corporation shall issue to each Clearing Member for each account maintained by the Clearing Member with the Corporation a report ("Daily Margin Activity Report") which shall show the amount of Margin required to be deposited with the Corporation by virtue of the Clearing Member's positions. All Margin requirements shall be satisfied by Settlement Time on each Business Day notwithstanding any error in such report.
- (2) If for any reason the Daily Margin Activity Report is not available to a Clearing Member, it shall be the responsibility of that Clearing Member to ascertain from the Corporation the amount of Margin

required to be deposited with the Corporation, so that the Margin requirements are met before Settlement Time each Business Day.

#### **Section A-704 Withdrawals of Margin**

(1) Subject to Subsection A-704(2), in the event that on any particular day the amount of a Clearing Member's Margin on deposit exceeds the amount required to be deposited by such Clearing Member on such day pursuant to this Rule A-7, as shown by a report (“Deposits/Withdrawals Report”) for such day, the Corporation shall authorize the withdrawal of the amount of the excess upon the submission to the Corporation, by such Clearing Member during the hours specified by the Corporation, of a withdrawal request in the form prescribed by the Corporation provided that the Clearing Member shall provide the Corporation with sufficient prior notice of such withdrawal request as set out in the Operations Manual.

(2) If a Clearing Member has excess Margin deposited in respect of any Firm Account, the Corporation shall be entitled to apply such excess (or a portion thereof) as is necessary to meet the Margin requirements in respect of a Client Account or Market Maker Account. If a Clearing Member has excess Margin deposited in respect of any Client Account or any Market Maker Account, the Clearing Member shall not be entitled to apply such excess (or a portion thereof) to meet the Margin requirements in respect of a Firm Account; provided, however, that if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation shall apply the Margin deposited by a Clearing Member indistinctively to meet the Margin requirements in respect of all its accounts.

#### **Section A-705 Intra-Day Margin Calls**

(1) The Corporation may require the deposit of supplementary Margin by any Clearing Member in any account at any time during any Business Day which the Corporation, in its sole discretion, considers necessary or advisable to reflect changes during such day in the Market Price of any Underlying Interest, or changes in the financial position of the Clearing Member or to protect the Corporation, Clearing Members or the public.

(2) Subject to Subsection A-704(2), if a Clearing Member has excess Margin on deposit with the Corporation, the Corporation shall be entitled, upon determining that supplementary Margin is required, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Margin requirements. The Corporation shall notify the Clearing Member as soon as practicable of such application. If there is no excess Margin then on deposit, the Corporation will notify the Clearing Member of the amount of supplementary Margin required. Such supplementary Margin shall be deemed to be owing upon a Clearing Member receiving notice thereof and shall be deposited by the Clearing Member within one hour of the Clearing Member receiving such notice, or such longer time as may be permitted by the Corporation. Credit for all such supplementary Margin deposits, shall be reflected on a report (“Daily Settlement Summary”) on the following Business Day.

#### **Section A-706 Margin Calculations**

Corporation uses SPAN® for its risk-based Margin system which analyzes Options and Futures positions in each account of each Clearing Member. The system projects a liquidating value for each such account and collects sufficient Margin to cover the Corporation’s projected costs in the event that such a liquidation should be required. Offsetting positions are considered and, where determined prudent, the Corporation may reduce its Margin requirements.

The Corporation uses a proprietary margining system for the purposes of margining any OTCI transactions presented to the Corporation for clearing. The components of margin for all OTCI transactions are as follows:

- (a) Outstanding settlement amounts not yet paid;
- (b) Mark-to-Market Valuation from current Open Positions within each account; and
- (c) A worst-case liquidating value for each account.

Margin off-sets are considered in the margining process and where determined prudent, the Corporation may reduce the Margin Requirements for specific accounts.

The Corporation provides Clearing Members with information on the calculation of Margins on request.

#### **Section A-707 Margin on Options Spread Positions Carried in Client Accounts**

- (1) Where a Clearing Member maintains an Options Spread Position in its Client Account, the Clearing Member may inform the Corporation of this fact with a view to reducing the Margin required on the positions held in that account by filing a report (“Options Spread Position Report”) with the Corporation.
- (2) Each Clearing Member shall maintain a record of each Spread Position held for in its Client Account identifying the client, the Client Account in which the Spread Position is held, and the specified Long Positions and Short Positions making up the Spread Position.
- (3) Prior to the time established by the Corporation, on every Business Day, each Clearing Member shall inform the Corporation, in the form prescribed, of the quantity and composition of any additions to or deletions from the Spread Positions carried for individual clients.
- (4) No Clearing Member shall inform the Corporation of a Spread Position or permit a Spread Position to remain recorded by the Corporation unless the Clearing Member is simultaneously carrying in the relevant Client Account Long and Short Positions for an equal number of Options of the same Class of Options and the margin required to be deposited by such client in respect of such positions has been reduced accordingly. The filing by a Clearing Member of an Options Spread Position Report shall constitute the certification by the Clearing Member to the Corporation that such filing is authorized, is in accordance with the foregoing and is in compliance with all applicable laws and regulations.
- (5) If a Client Account with the Corporation has Spread Positions for a Series of Options in respect of which the Corporation has been notified and the total Long Position in such Series of Options is reduced by the filing of an Exercise Notice or the execution of a closing transaction in such account, such reduction shall also be applied by the Corporation against the Spread Position in such account. If the Clearing Member wishes such reduction to be applied in a different manner, it shall so instruct the Corporation by filing an appropriate spread instruction.

#### **Section A-708 Underlying Interest and Underlying Interest Equivalent**

Clearing Members shall NOT be required to deposit Margin in respect of short positions in Futures or Options for which they have deposited the Underlying Interest or Underlying Interest Equivalent as herein defined.

- (1) For **CALL OPTIONS** the Underlying Interest or Underlying Interest Equivalent shall mean:
- (a) Equity Options – the underlying Security or any Security exchangeable or convertible without restriction, other than the payment of Money, into the underlying Security shall be acceptable, provided that neither the Security nor the right to exchange or convert lapses throughout the life of the Option. Where the payment of money is a condition of conversion such Money shall be deposited with the Corporation at the same time as the convertible Security. This provision applies to warrants, rights, and convertible Securities.

In case of a stock split, a Clearing Member may make a deposit hereunder by depositing certificates representing the underlying Security and by filing with the Corporation a letter of undertaking executed by the Clearing Member in the form prescribed by the Corporation. Each deposit shall be deemed only to occur and continue so long as both the certificates are on deposit and the letter of undertaking duly executed, complete and unexpired is filed with the Corporation.

- (b) Bond Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:
- (i) are the underlying bond; or
- (ii) have been determined by the Corporation as acceptable.

#### INTERPRETATION AND POLICY

A list of acceptable bonds will be published from time to time. Acceptable bonds for Margin against a series of bond Options will normally be bonds which:

- (i) have higher coupon rates;
- (ii) have an aggregate face value at maturity of at least \$1,000,000,000;
- (iii) trade at a premium of \$5 greater than the underlying bond; and
- (iv) mature no sooner than 2 years prior to the underlying bond.
- (c) Silver Options – silver certificates issued by organizations acceptable to the Corporation.
- (d) Cash Settlement Options –
- (i) Government Securities as specified in Section A-709 equal in value to the aggregate current value (which for the purposes of this Section have the meaning attributed thereto in Section B-1001 as the context requires) of the Option at the close of trading on the Business Day prior to the deposit.

- (ii) If the value of the government Securities deposited for each contract falls below the value of the aggregate current value on any Business Day the Corporation may call for an additional deposit or Margin.
  - (e) Options on short term money-market instruments expiring in one year or less –  
The Underlying Interest or any other instrument acceptable to the Corporation.
  - (f) Futures Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:
    - (i) are the underlying bond; or
    - (ii) have been determined by the Corporation as acceptable.
  - (g) Gold Options – gold certificates issued by organizations acceptable to the Corporation.
- (2) For **PUT OPTIONS** Underlying Interest and Underlying Interest Equivalent shall mean:
- (a) Cash,
  - (b) Government Securities as specified in Section A-709, or
  - (c) Puts Guaranty Letter - a guaranty letter in the form approved by the Corporation, issued by an Approved Depository which states that it is being deposited to serve as Margin for puts positions in a Client Account and that such guaranty letter shall not constitute Margin for any other account maintained by the Clearing Member.

#### INTERPRETATION AND POLICY

The Corporation will only accept a puts guaranty letter from a bank and trust company which is an Approved Depository and which meets the Bourse de Montréal Inc.'s requirements of an "Acceptable Institution" or "Acceptable Counterparty" as from time to time amended.

With respect to **FUTURES** the Clearing Member may deposit any Underlying Interest or Underlying Interest Equivalent which would be considered good delivery on the corresponding Futures contracts. For cash settlement Futures, the Corporation may impose from time to time at its sole discretion margin requirements on the Underlying Interest or Underlying Interest Equivalent as determined by the Corporation.

For **FUTURES**, the Underlying Interest or Underlying Interest Equivalent shall mean the physical Underlying Interest or Underlying Interest Equivalent which has been determined acceptable by the Corporation.

#### Section A-709 Forms of Margin

Required Margin may be deposited with the Corporation, subject to Section A-212, in one or more of the following forms:

- (1) **Cash** - Clearing Members may deposit cash by way of an irrevocable funds transfer, a certified cheque or bank draft drawn on a bank acceptable to the Corporation and payable to the Corporation

or such other funds as may be acceptable to the Corporation. Funds so deposited may, from time to time, be partially or wholly invested by the Corporation for its account and, to the extent not so invested, shall be deposited to the credit of the Corporation in such financial institutions as the Board may select. Any interest or gain received or accrued on the investment of such funds shall belong to the Corporation. Subject to Subsection A-701(4), such funds shall not be used by the Corporation as working capital.

- (2) **Government Securities** – Clearing Members may deposit, as hereinafter provided, such government Securities as may be specified by the Corporation, which are freely negotiable and which shall be valued at a discounted rate to their market value, as determined by the Corporation from time to time in accordance with the Operations Manual for government Securities. Such valuation rate shall be applied to the Market Value of the relevant Securities. “Market value” as used in this Subsection A-709(2) shall be determined on the close of each Business Day by the Corporation through reference to one or more data supply services retained by the Corporation for such purpose. If a market value is required to be determined on a non-Business Day, and the data supply service does not provide a market value for such day, the market value on the immediately preceding Business Day shall be used. If no market value is generally available for any government Securities accepted by the Corporation as a form of Margin, such Securities shall be valued at an amount determined by the Corporation.

The government securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the government Securities as Margin or an Approved Depository's Safe Custody Receipt or Futures Margin Receipt in respect of such government Securities. All interest or gain received or accrued on such government Securities prior to any sale or negotiation thereof shall belong to the depositing Clearing Member and such interest will be paid to such depositing Clearing Member by the relevant issuer.

Government Securities deposited by the Clearing Member with an Approved Depository shall be deposited under arrangements:

- (a) permitting the government Securities to be promptly sold by or upon the order of the Corporation for the account of the Clearing Member without notice; and
- (b) requiring the Clearing Member to pay all fees and expenses incidental to the ownership or sale of such government securities or the arrangement with the Approved Depository.

- (3) ~~Letters of Credit – Clearing Members may deposit with the Corporation letters of credit issued by banks or other organizations approved by the Corporation for this purpose. Such letters of credit:~~
- ~~(a) shall be issued by a bank or other organization which has provided no more than 50% of the total financial statement capital of the clearing member firm;~~
  - ~~(b) shall not be deposited to satisfy both client and firm margin commitments, but rather, shall be provided as separate letters of credit for either client or firm margin commitments;~~
  - ~~(c) shall contain the unqualified commitment of the issuer to pay a specified sum of money to the Corporation immediately upon demand at any time prior to the expiration of the letter of credit;~~

- ~~(d) shall expire at 3:00 p.m. Eastern Time on the first bank Business Day of either March or September;~~
- ~~(e) shall be revocable only upon the issuer's written notice of revocation delivered to the Corporation not less than 2 full Business Days prior to the date fixed for such revocation.~~

#### ~~INTERPRETATION AND POLICY~~

~~The Corporation will accept letters of credit from Canadian chartered banks which have capital of at least \$50 million, and from duly authorized central credit unions or regional Caisses Populaires with capital in excess of \$100 million. The sum of letters of credit issued by and bankers' acceptances accepted by any one financial institution, on behalf of all Clearing Members, shall not exceed 10% of the capital of such institution.~~

- ~~(4) **Bankers' Acceptances** — Clearing Members may deposit with the Corporation bankers' acceptances which are accepted by banks recognized by the Corporation as issuers of letters of credit. These bankers' acceptances:~~
  - ~~(a) shall be valued at a rate, which is expressed as a percentage as determined by the Corporation from time to time in accordance with the Operations Manual. This rate shall be applied to the face value of the relevant bankers' acceptances;~~
  - ~~(b) shall be issued by a bank or other organization which has provided no more than 50% of the financial statement capital of the clearing member firm;~~
  - ~~(c) shall not be deposited to satisfy both client and firm margin commitments, but rather, shall be provided as separate bankers' acceptances for either client or firm margin commitments.~~

#### ~~INTERPRETATION AND POLICY~~

~~The Corporation will accept bankers' acceptances accepted by Canadian chartered banks which have capital of at least \$50 million. The sum of letters of credit issued by and bankers' acceptances accepted by any one financial institution, on behalf of all Clearing Members, shall not exceed 10% of the capital of such institution.~~

#### ~~(5) **Valued Securities**~~

- ~~(a) In addition to the Underlying Interest and Underlying Interest Equivalent which may be deposited under Section A-708 Clearing Members may deposit any Security listed on ~~an Exchange~~ the Toronto Stock Exchange or the TSX Venture Exchange (such Security, (a "Valued Security"), other than a debt Security, against their total Margin requirements. This Margin shall be deemed to be deposited with the Corporation at the time the Corporation either accepts the Securities, accepts a Safe Custody Receipt issued in respect of the Securities by an Approved Depository or accepts notification from an Approved Depository of a position in the security segregated to the order of the Corporation.~~
- ~~(b) No value will be given for any Valued Security on any one day when the closing price thereof or, if there was no trading in such Valued Security on such day on any applicable Exchange, the previous closing price is less than \$10 on any applicable Exchange.~~

- (c) Valued Securities so deposited will be marked-to-the-market daily and 50% of this daily value applied against the total Margin required against all accounts combined.
  - (d) No more than 10% of the total Margin required against all accounts combined may be covered by any one Valued Security.
  - (e) For each Clearing Member, no more than 15% of the total Margin required against all of its accounts combined may be covered by Valued Securities.
  - (f) No value will be given for any Valued Securities deposited by a Clearing Member if such Valued Securities are issued by an Affiliate of such Clearing Member.
- (4) Other Forms of Margin Deposit** - The Corporation may from time to time accept other forms of Margin deposit as determined in its sole discretion. The Corporation may alter any such accepted form of deposit and may at any time cease accepting any alternative form of deposit previously accepted by it. Where a previously accepted form of deposit is determined to be no longer acceptable by the Corporation, it shall notify all Clearing Members who shall promptly replace all such unacceptable forms of deposit with forms of deposit acceptable to the Corporation.

#### **Section A-710 Daily Capital Margin Monitoring Calls**

The Corporation will monitor the Margin requirement of a Clearing Member as a percentage of its capital. In the event that this ratio exceeds 100%, an additional margin in the amount of the excess over the ratio of 100% will be collected from the Clearing Member in the form of acceptable Margin in accordance with Section A-709.



## **RULE C-3 SETTLEMENT**

### **Section C-301 Settlement Price**

The Settlement Price of a Series of Futures for each day shall be the amount determined by the Exchange on which the Future trades taking into account the closing prices of the series for that day and, where there is not a closing price for that day, the average of the closing bid and asked prices of that series for that day and such other information as the Exchange considers relevant.

### **Section C-302 Settlement of Gains and Losses**

- (1) The gain or loss on a Futures position which was opened on that Business Day shall be the difference between the Trade Price and the Settlement Price of that Series of Futures for that day.
- (2) The gain or loss on a Futures position which was both opened and closed on that Business Day shall be the difference between the two Trade Prices.
- (3) The gain or loss on a Futures position which was opened on a previous Business Day shall be the difference between the Settlement Price of that Series of Futures for the immediately preceding Business Day and the Settlement Price of that Series of Futures for that day.

### **Section C-303 Advance Call for Settlement of Losses**

If the market conditions or price fluctuations are such that the Corporation deems it necessary, it may call upon any Clearing Member which in its opinion is affected to deposit with the Corporation by such time as it shall specify, a certified cheque, bank transfer, ~~or~~ wire transfer of funds ~~or letter of credit (to the order of the Corporation in a form and from an issuer acceptable to the Corporation)~~, for the amount of funds that it estimates will be needed to meet such losses as the Corporation considers may be necessary or advisable. Credit shall be given to the Clearing Member for all such funds on the following Business Day.

## RULE D-6 CLEARING OF FIXED INCOME TRANSACTIONS

The Sections of this Rule D-6 are applicable only to the clearing of Fixed Income Transactions by the Corporation and to those Clearing Members who are required to make a base deposit to the Clearing Fund for Fixed Income Clearing as set out in Paragraph A-601(2)(d).

### Section D-601 Definitions

Notwithstanding Section A-102, for the purposes of Fixed Income Clearing, the following terms are defined as follows:

“Accrued Coupon Income” – with respect to a Repurchase Transaction, the Coupon Income paid by an issuer of Purchased Securities and held by a Net Buyer under Paragraph D-606(9)(b) plus the accrued interest on such Coupon Income calculated at the Repo Rate for such Repurchase Transaction for the period from and including the date such Coupon Income was paid by such issuer up to and excluding the Repurchase Date.

“Accrued Coupon Value” – with respect to any Purchased Security, the proportion of the Coupon Income payable by the issuer of the relevant Security on the next Coupon Payment Date corresponding to the number of days that have elapsed since the immediately preceding Coupon Payment Date up to the applicable calculation date [calculated based on a calendar year of 365 days].

“Cash Buy or Sell Trade” – a transaction by which a Fixed Income Clearing Member buys (Cash Buy Trade) or sells (Cash Sell Trade) an Acceptable Security.

“CORRA Rate” – The weighted average of rates on overnight general collateral repo transactions conducted through designated interdealer bond brokers between 06:00 and 16:00, as determined by the Bank of Canada.

“Coupon Income” – the interest amount payable to the holder of a Security by its issuer on a Coupon Payment Date.

“Coupon Payment Date” – a date on which the issuer of a Security pays Coupon Income to the holder of the Security.

“Cut-Off Time” – means a time specified in the Operations Manual as the deadline on any Business Day for accepting Repurchase Transactions for clearing with settlement on the same Business Day and Cash Buy or Sell Trades for a Trade Date on the same Business Day.

“Economic Terms” – means the transactional details of a Fixed Income Transaction as set out in Subsection D-603(1).

“Equivalent Security” – an Acceptable Security that is equivalent to the Purchased Security in that it is of the same issuer, part of the same issue, of an identical type, nominal value, description and (except where otherwise specified by the Corporation) amount as the Purchased Security.

“Fixed Income Clearing” – the provision of clearing services by the Corporation of Fixed Income Transactions.

“Fixed Income Clearing Member” – an applicant which meets the criteria set out in Section A – 1A01 and Subsection A-301(3) and is approved by the Corporation for Fixed Income Clearing.

“Fixed Income Transaction(s)” – Repurchase Transaction(s) and/or Cash Buy or Sell Trade(s).

“Floating Price Rate” – means, in respect of a Repurchase Transaction, the overnight index swap (“OIS”) rate as published by Bloomberg for a term that is the same as the Term of such Repurchase Transaction (and if an OIS rate is not available for the applicable Term, such Floating Price Rate will be determined by interpolating the OIS rate between the two terms published by Bloomberg that are closest to the applicable Term), as determined by the Corporation in accordance with its customary practices for purposes of calculating mark-to-market payments and margin payments. For the purposes of this definition, “Term” shall mean the remaining number of days between the applicable calculation date and the Repurchase Date of the relevant Repurchase Transaction.

“Market Value” – with respect to any Purchased Securities as of any time on any date, the current price as of such date for the relevant Purchased Securities as determined by the Corporation on the basis of then available price source quotations or alternative market information, as determined by the Corporation plus the Accrued Coupon Value in respect of such Purchased Securities to the extent not included in such current price.

“MTM Repo Rate Payment” – represents a mark-to-market payment made in respect of a change in the current Floating Price Rate and means, in respect of a Repurchase Transaction, an amount that is payable to the Corporation by a Fixed Income Clearing Member that is a party to such Repurchase Transaction, or by the Corporation to a Fixed Income Clearing Member that is a party to such Repurchase Transaction, due to changes in the Floating Price Rate from the last time a MTM Repo Rate Payment was calculated (the “Previous Floating Price Rate”) in respect of such Repurchase Transaction (or, in the case of the first such calculation, due to changes in the Repo Rate initially agreed between the parties), by comparing the Previous Floating Price Rate or the Repo Rate, as the case may be, to the then current Floating Pricing Rate.

“N-Day Term Repurchase Transaction” – means a Repurchase Transaction with a term longer than one Business Day.

“Net Buyer” – a Fixed Income Clearing Member whose aggregate net sum of Net Funds Transfer Requirement, Net Funds Reversal Requirement, any applicable Postponed Payment Obligation(s) and any other payment obligation against delivery of an Acceptable Security due by such Fixed Income Clearing Member to the Corporation on a given Business Day are greater than the aggregate net sum of Net Funds Transfer Requirement, Net Funds Reversal Requirement, any applicable Postponed Payment Obligation(s) and any other payment obligation against delivery of an Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Business Day, as determined by the Corporation pursuant to Paragraph A-801(2)(b).

“Net Delivery Obligation” – in respect of a Fixed Income Clearing member, the quantity of a given Acceptable Security which is the aggregate net quantity of any Net Securities Transfer Requirement deliverable by or to such Fixed Income Clearing Member to or by the Corporation and any Net Securities Reversal Requirement deliverable by or to such Fixed Income Clearing Member to or by the Corporation, and any Rolling Delivery Obligation deliverable by or to such Fixed Income Clearing Member to or by the Corporation, as the case may be, with respect to such Acceptable Security, on a given Business Day, calculated in accordance with Subsection D-606(3).

“Net Funds Transfer Requirement” – the amount which is the aggregate net sum of Purchase Prices payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(1).

“Net Funds Reversal Requirement” – the amount which is the aggregate net sum of Repurchase Prices payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(2).

“Net MTM Repo Rate Payment” – means, on any day the amount which is the aggregate net sum of all MTM Repo Rate Payments payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(5).

“Net MTM Reversal Requirement” – means in respect of a Fixed Income Clearing Member on any day, the amount which is the aggregate net sum of (i) all Net MTM Repo Rate Payments made by such Fixed Income Clearing Member in respect of its Repurchase Transactions, net of (ii) all Net MTM Repo Rate Payments made to such Fixed Income Clearing Member in respect of its Repurchase Transactions.

“Net OCF MTM Payment” – means, on any day, the amount which is the aggregate net sum of all OCF MTM Payments payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(7).

“Net Payment Obligation” – in respect of a Fixed Income Clearing Member, the amount which is the aggregate net sum of any Net Funds Transfer Requirement payable by or to such Fixed Income Clearing Member to or by the Corporation and any Net Funds Reversal Requirement payable by or to such Fixed Income Clearing Member to or by the Corporation, and any Postponed Payment Obligation due and payable by or to such Fixed Income Clearing Member to or by the Corporation, as the case may be, on a given Business Day, calculated in accordance with Subsection D-606(3).

“Net Seller” – a Fixed Income Clearing Member whose aggregate net quantity of Net Securities Transfer Requirement, Net Securities Reversal Requirement, any applicable Rolling Delivery Obligation(s) and any other delivery obligation in respect of a given Acceptable Security due by such Fixed Income Clearing Member to the Corporation on a given Business Day are greater than the aggregate net quantity of Net Securities Transfer Requirement, Net Securities Reversal Requirement, any applicable Rolling Delivery Obligation(s) and any other delivery obligation in respect of a given Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Business Day, as determined by the Corporation pursuant to Paragraph A-801(2)(c).

“Net Securities Transfer Requirement” – the aggregate net quantity of an Acceptable Security due by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(1).

“Net Securities Reversal Requirement” – the aggregate net quantity of an Acceptable Security due by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(2).

“OCF MTM Payment” – represents an opportunity cost of funds payment in respect of an MTM Repo Rate Payment made and means, with respect to any Repurchase Transaction on any calculation date and

in respect of all MTM Repo Rate Payments made by or to a Fixed Income Clearing Member in respect of such Repurchase Transaction, an amount equal to one day's interest, calculated by the applying the CORRA Rate determined on such calculation date (provided if such calculation date is not a Business Day, on the immediately following Business Day) to such MTM Repo Rate Payment on a 365 day basis, provided that if such Fixed Income Clearing Member had to pay an MTM Repo Rate Payment, the interest amount calculated in respect of such MTM Repo Rate Payment shall be payable by the Corporation to the Fixed Income Clearing Member, and if such Fixed Income Clearing Member received an MTM Repo Rate Payment, the interest amount calculated in respect of such MTM Repo Rate Payment shall be payable by the Fixed Income Clearing Member to the Corporation.

“Open Leg” – means, with respect to a Repurchase Transaction, the first part of a Repurchase Transaction where either (i) a Repo Party agrees to sell Acceptable Securities to a Reverse Repo Party at a Purchase Price to be paid by the Reverse Repo Party to the Repo Party, or (ii) a Reverse Repo Party agrees to buy Acceptable Securities from a Repo Party at a Purchase Price to be paid to the Repo Party by the Reverse Repo Party.

“OTCI Clearing Platform” – the dedicated trade input screens for clearing and settlement of OTCI operated and/or used by the Corporation.

“Price Differential” – with respect to any Repurchase Transaction, an amount payable by the Repo Party equal to an amount obtained by application of the Repo Rate for such Repurchase Transaction to the Purchase Price for such Repurchase Transaction (on a 365 day basis), for the actual number of days of the term of such Repurchase Transaction.

“Purchase Date” – with respect to any Repurchase Transaction, the date on which Purchased Securities are sold by the Repo Party to the Corporation and by the Corporation to the Reverse Repo Party; and with respect to any Cash Buy or Sell Trade, the date on which it settles, provided that if such date is not a Business Day, the Purchase Date shall be the immediately following day.

“Purchase Price” – with respect to any Fixed Income Transaction, the amount at which the Purchased Securities are sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

“Purchased Securities” – with respect to any Fixed Income Transaction, the Acceptable Securities sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

“Quantity of Purchased Securities” – with respect to a Fixed Income Transaction, an amount equal to the Purchase Price for such Fixed Income Transaction on the Trade Date of such Fixed Income Transaction divided by the Market Value per dollar of the Specified Denomination of the relevant Purchased Securities, rounded up to the nearest whole number.

“Repurchase Transaction” – A) a trade originally entered into between two Fixed Income Clearing Members which is submitted to the Corporation for clearing in which either (i) a Repo Party agrees to sell Acceptable Securities to a Reverse Repo Party at a Purchase Price to be paid by the Reverse Repo Party to the Repo Party, with a simultaneous agreement by the Repo Party to purchase Equivalent Securities from the Reverse Repo Party at a future date at a Repurchase Price to be paid to the Reverse Repo Party by the Repo Party, or (ii) a Reverse Repo Party agrees to buy Acceptable Securities from a Repo Party at a Purchase Price to be paid to the Repo Party by the Reverse Repo Party, with a simultaneous agreement by the Reverse Repo Party to sell Equivalent Securities to the Repo Party at a future date at a Repurchase Price to be paid by the Repo Party to the Reverse Repo Party, and, as appropriate in the circumstances, B)

the Transaction resulting from the novation of the trade described in A) pursuant to Section D-605 of the Rules,.

“Repo Party” or “Seller” – in respect of a Fixed Income Clearing Member, such Fixed Income Clearing Member who is the seller under a Fixed Income Transaction and who becomes the seller to the Corporation upon acceptance of the Fixed Income Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the seller under a Fixed Income Transaction pursuant to Section D-605. The term “Repo Party” will be used when referring specifically to a Repurchase Transaction, whereas the term “Seller” will be used when referring to a Cash Buy or Sell Trade or to Fixed Income Transactions generally.

“Repo Rate” – with respect to any Repurchase Transaction, the per annum fixed pricing rate agreed by the Repo Party and the Reverse Repo Party.

“Repurchase Date” – with respect to any Repurchase Transaction, a day on which Equivalent Securities are to be sold by a Reverse Repo Party to the Corporation and by the Corporation to a Repo Party, in accordance with Section D-606; provided that if such date is not a Business Day, the Repurchase Date shall be the immediately following Business Day.

“Repurchase Price” – with respect to any Repurchase Transaction, the sum of the Purchase Price and the Price Differential.

“Reverse Repo Party” or “Buyer” – in respect of a Fixed Income Clearing Member, such Fixed Income Clearing Member who is the buyer of a Fixed Income Transaction and who becomes the buyer to the Corporation upon acceptance of the Fixed Income Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the buyer under a Fixed Income Transaction pursuant to Section D-605. The term “Reverse Repo Party” will be used when referring specifically to a Repurchase Transaction, whereas the term “Buyer” will be used when referring to a Cash Buy or Sell Trade or to Fixed Income Transactions generally.

“Specified Denomination” – with respect to an Acceptable Security, the denomination in which it was issued.

“Same Day Transaction” – means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having the same Trade Date and Purchase Date.

“Trade Date” – the date on which a Fixed Income Transaction is submitted to the Corporation for clearance provided that if such date is not a Business Day or the transaction is submitted after the Cut-Off Time on that Business Day, the Trade Date shall be deemed to be the immediately following Business Day.

Any capitalized term used in this Rule D-6 that is not defined in this Section D-601 shall have the meaning assigned to it in Section A-102.

### **Section D-602 Paramountcy**

In the event of any inconsistency between the provisions of this Rule D-6 and the other provisions of the Rules, the provisions of this Rule D-6 will prevail.

### Section D-603 Essential Terms of Fixed Income Transactions

(1) In addition to and not in lieu of the Acceptance Criteria set forth in Section D-104, the following Economic Terms of a Fixed Income Transaction shall be required to be submitted to the Corporation:

- Seller
- Buyer
- Purchased Securities (CUSIP/ISIN)
- Quantity of Purchased Securities
- Trade Date
- Purchase Price
- Purchase Date
- Repurchase Date (as applicable)
- Repo Rate (as applicable)
- Substitution (indicate whether applicable or not)
- Coupon Income (indicate whether payable when received, or payable only on Repurchase Date).

(2) Subject to conditions set forth herein, once a Trade Confirmation has been issued by the Corporation, the Corporation shall assume the position of the Seller and become a seller to Buyer and shall assume the position of the Buyer and become the buyer to Seller under all Fixed Income Transactions in each case, as principal to such Fixed Income Transactions, as a result of the novation process set forth in Subsection D-605(3).

(3) On the Purchase Date of each Fixed Income Transaction, the Seller shall transfer the Purchased Securities on such Purchase Date against payment of the Purchase Price by the Buyer. On the Repurchase Date of each Repurchase Transaction, the Reverse Repo Party shall transfer the Equivalent Securities against payment of the Repurchase Price by the Repo Party. The transfer and payment obligations referred to in this provision shall be subject to netting and settlement processes set forth in Section D-606.

(4) Notwithstanding the use of expressions such as “Repurchase Date”, “Repurchase Price”, “margin” and “substitution” or any other Rule, all right, title and interest (free from liens, claims, charges, encumbrances) in and to the Purchased Securities and Equivalent Securities and money transferred or paid under these Rules shall pass to the party receiving such Purchased Securities, Equivalent Securities and money upon transfer or payment, and no security interest or hypothec is created in the Purchased Securities and Equivalent Securities and money transferred or paid. Each Fixed Income Clearing Member shall execute and deliver all necessary documents and take all necessary steps to procure that all right, title and interest in any Purchased Securities and in any Equivalent Securities shall pass to the party to

which transfer is being made upon transfer of the same in accordance with these Rules, free from all liens, claims, charges and encumbrances, and such transfer will not violate any agreement to which such Fixed Income Clearing Member may be a party or by which such Fixed Income Clearing Member's property may be bound.

(5) For purposes of the *Interest Act* (Canada), if any rate of interest payable under any Fixed Income Transaction is expressed to be calculated on the basis of a period less than a full calendar year, the yearly rate of interest to which such rate is equivalent is the product obtained by multiplying such rate by a fraction, the numerator of which is the actual number of days in the calendar year and the denominator of which is the number of days comprising such other basis.

#### **Section D-604 Trade Reception and Validation**

(1) Any Repurchase Transaction or Cash Buy or Sell Trade must be submitted for clearing to the Corporation through an Acceptable Marketplace (whether bilateral or multilateral) or through the CDS trade matching facility. The Corporation may require evidence as it deems reasonably acceptable that a Fixed Income Clearing Member is a duly authorized participant of any multilateral Acceptable Marketplace. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence, or any other act or omission, by the multilateral Acceptable Marketplace or the CDS trade matching facility, as applicable.

(2) Once a Repurchase Transaction or Cash Buy or Sell Trade is received by the Corporation, a variety of validations will occur in accordance with the OTCI Clearing Platform procedure. These validations are designed to ensure that all Economic Terms match and all Acceptance Criteria set forth in Section D-104 are satisfied, and the Corporation does not accept any Repurchase Transaction or Cash Buy or Sell Trade bearing attributes that are determined by the Corporation as not acceptable for clearing. The Corporation will not accept a Repurchase Transaction with a Repurchase Date later than the maturity date of the applicable Purchased Securities.

(3) If a Repurchase Transaction is received for clearing by the Corporation after the Cut-Off Time, the Purchase Date of the Repurchase Transaction shall be the next Business Day, and if a Cash Buy or Sell Trade is received for clearing by the Corporation after the Cut-Off Time, the Trade Date shall be the next Business Day.

(4) If the Acceptable Marketplace used for submitting a Repurchase Transaction or Cash Buy or Sell Trade for clearing is a multilateral facility, each Fixed Income Clearing Member transacting as Buyer or Seller shall be responsible for timely affirming the Fixed Income Transactions on the OTCI Clearing Platform, as directed by the Corporation.

#### **Section D-605 Confirmation and Novation**

(1) Once all validations have occurred and the Fixed Income Transactions are either (i) duly affirmed by the Fixed Income Clearing Members on the OTCI Clearing Platform or (ii) received for clearing by the Corporation from the CDS trade matching facility, the Corporation shall issue a Trade Confirmation with respect to each individual Fixed Income Transaction and send it to the transacting Fixed Income Clearing Members. A Fixed Income Clearing Member shall be bound by the terms of a Fixed Income Transaction for which the Corporation has issued a Trade Confirmation in its name. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence or other act or omission by the CDS trade matching facility.



(2) The Corporation shall reject the Repurchase Transaction or Cash Buy or Sell Trade if (i) Economic Terms listed in Section D-603 are determined by the Corporation in its sole discretion as incorrect or incomplete when the Repurchase Transaction or Cash Buy or Sell Trade is submitted to the Corporation by or on behalf of a Fixed Income Clearing Member, or (ii) the Economic Terms submitted by or on behalf of the two Fixed Income Clearing Members that are parties to a Repurchase Transaction or Cash Buy or Sell Trade do not match, or (iii) any other Acceptance Criteria set forth in Section D-104 is not met. Such Repurchase Transaction or Cash Buy or Sell Trade will remain in effect solely between the persons party thereto in accordance with any terms agreed between them, and the Corporation shall have no further obligation or liability with respect to such Repurchase Transaction or Cash Buy or Sell Trade.

(3) Upon the issuance of a Trade Confirmation by the Corporation under Subsection D-605(1) and notwithstanding the fact that the transacting Fixed Income Clearing Members may not have received such Trade Confirmation, the Repurchase Transaction or Cash Buy or Sell Trade shall be automatically novated to the Corporation, such that the original Repurchase Transaction or Cash Buy or Sell Trade between the two Fixed Income Clearing Members is cancelled and replaced by two equivalent Fixed Income Transactions, one between the Seller and the Corporation where the Corporation is substituted as the Buyer, and one between the Buyer and the Corporation where the Corporation is substituted as the Seller. In respect of the Economic Terms, the Fixed Income Clearing Member that is a Seller under such original Repurchase Transaction or Cash Buy or Sell Trade shall have the same rights against, and owe the same obligations to, the Corporation under such Repurchase Transaction or such Cash Buy or Sell Trade to which it is a party as the selling party had and owed in respect of its counterparty under the original Repurchase Transaction or Cash Buy or Sell Trade, as the case may be. For purposes hereof, a reference to the “same” rights or obligations is a reference to rights or obligations falling due for exercise or performance after the time at which a Trade Confirmation is issued in respect of a Fixed Income Transaction, and which are the same in nature and character as the rights or obligations arising from the Economic Terms of the original Repurchase Transaction or Cash Buy or Sell Trade (it being assumed, for this purpose, that such Repurchase Transaction or Cash Buy or Sell Trade was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Corporation for clearing), notwithstanding the substitution in the person entitled to them or obliged to perform them and subject to any changes thereto as a result of the operation of these Rules.

(4) Fixed Income Clearing by the Corporation is subject to, and contingent upon, the occurrence of the novation described in Subsection 605(3) above. Effective as at the time of such novation, Fixed Income Clearing Members that were parties to the original Repurchase Transaction or Cash Buy or Sell Trade shall be released and discharged from their respective obligations to each other and the resulting Fixed Income Transactions shall be governed by these Rules.

(5) If a Repurchase Transaction or a Cash Buy or Sell Trade is revoked, voided or otherwise declared invalid for any reason after the Economic Terms of it have been accepted by the Corporation for clearing, that revocation, avoidance or invalidity shall not affect any Fixed Income Transaction arising out of this Section D-605.

### **Section D-606 Transfers and Payments**

(1) ~~At~~ Subject to Subsection D-606(10), at the applicable Netting Cut Off Time on a Purchase Date, the Corporation shall calculate with respect to each Fixed Income Clearing Member (i) the Net Securities Transfer Requirement with respect to each Acceptable Security by aggregating the Purchased Securities

of such Acceptable Security due by each Fixed Income Clearing Member on such Purchase Date and netting them against the Purchased Securities of such Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Purchase Date, and (ii) the Net Funds Transfer Requirements by aggregating all Purchase Prices due by each Fixed Income Clearing Member to the Corporation and netting them against all Purchase Prices due by the Corporation to such Fixed Income Clearing Member across all its Fixed Income Transactions.

(2) ~~At~~Subject to Subsection D-606(10), at the applicable Netting Cut Off Time on each Repurchase Date, the Corporation shall calculate with respect to each Fixed Income Clearing Member (i) the Net Securities Reversal Requirements with respect to each Acceptable Security by aggregating the Equivalent Securities of such Acceptable Security due by each Fixed Income Clearing Member on such Repurchase Date and netting them against the Equivalent Securities of such Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Repurchase Date; and (ii) the Net Funds Reversal Requirements by aggregating all Repurchase Prices less all Accrued Coupon Income deductible pursuant to Paragraph D-606(9)(b), due by each Fixed Income Clearing Member to the Corporation and netting them against all Repurchase Prices less all Accrued Coupon Income deductible pursuant to Paragraph D-606(9)(b), due by the Corporation to such Fixed Income Clearing Member across all of its Repurchase Transactions.

(3) ~~At~~Subject to Subsection D-606(10), at the applicable Netting Cut Off Time on each Business Day, for each Fixed Income Clearing Member, the Corporation shall calculate (i) the Net Delivery Obligation with respect to an Acceptable Security by aggregating and netting the Net Securities Transfer Requirement, the Net Securities Reversal Requirement, and any Rolling Delivery Obligation, as applicable, owing to or by the Fixed Income Clearing Member with respect to such Acceptable Security on such Business Day (which Net Delivery Obligation shall be subject to further netting pursuant to Paragraph A-801(2)(c) and the other provisions of Rule A-8); and (ii) the Net Payment Obligation by aggregating and netting the Net Funds Transfer Requirement, the Net Funds Reversal Requirement, any Coupon Income payable pursuant to Paragraph D-606(9)(a), and any Postponed Payment Obligation, as applicable, owing to or by the Fixed Income Clearing Member, provided, however, these amounts shall not be netted against any other payment owing to or by a Fixed Income Clearing Member other than as permitted under Paragraph A-801(2)(b) and Rule A-8.

(4) ~~At~~Subject to Subsection D-606(10), at the applicable Netting Cut Off Time on each Business Day, the Net Delivery Obligations and the Net Payment Obligations will be netted against all other payment and delivery obligations with respect to Acceptable Securities pursuant to Paragraphs (b) and (c) of Subsection A-801(2), and communicated by the Corporation to Fixed Income Clearing Members that are Net Sellers with respect to a given Acceptable Security and/or Net Buyers. Fixed Income Clearing Members are responsible for ensuring that there are sufficient funds and sufficient Acceptable Securities in their cash and securities accounts at CDS to satisfy their Net Delivery Requirement and/or Net Payment Against Delivery Requirement, as applicable, as they become due in accordance with the rules of the Central Securities Depository.

(5) At the end of each Business Day, the Corporation shall calculate the Net MTM Repo Rate Payment for each Fixed Income Clearing Member, which shall be due and payable at Settlement Time, by aggregating all MTM Repo Rate Payments due by each Fixed Income Clearing Member to the Corporation and netting them against all MTM Repo Rate Payments due by the Corporation to such Fixed Income Clearing Member across all its Repurchase Transactions provided that a MTM Repo Rate

Payment shall not be calculated in respect of a Repurchase Transaction where such Business Day is the Repurchase Date of such Repurchase Transaction.

(6) At the end of each Business Day, an amount in respect of the Net MTM Reversal Requirement will be calculated, which shall be due and payable at Settlement Time to a Fixed Income Clearing Member by the Corporation if the amount in clause (i) of the definition of “Net MTM Reversal Requirement” is greater than the amount in clause (ii) of such definition, and will be paid by such Fixed Income Clearing Member to the Corporation if the amount in clause (ii) of such definition is greater than the amount in clause (i) of such definition; provided that this Subsection D-606(6) shall not apply if such Fixed Income Clearing Member is a Non-Conforming Member.

(7) (a) The payment of MTM Repo Rate Payments on a daily basis potentially distorts the pricing mechanisms for a Repurchase Transaction and in order to minimize the impact of such MTM Repo Rate Payments, the Corporation will, for each Fixed Income Clearing Member that is a party to a Repurchase Transaction, either charge interest on such MTM Repo Rate Payments received or pay interest on such MTM Repo Rate Payments paid, as determined pursuant to Paragraph D-606(7)(b).

(b) At the end of each Business Day, an amount in respect of the Net OCF MTM Payment will be calculated, which shall be due and payable at Settlement Time (i) to a Fixed Income Clearing Member by the Corporation if it is determined on such day that a Net MTM Reversal Requirement is payable to such Fixed Income Clearing Member by the Corporation, or (ii) by a Fixed Income Clearing Member to the Corporation if it is determined on such day that a Net MTM Reversal Requirement is payable by such Fixed Income Clearing Member to the Corporation. The amount of such Net OCF MTM Payment shall be determined by aggregating all OCF MTM Payments due by each Fixed Income Clearing Member to the Corporation in respect of its Repurchase Transactions and netting them against all OCF MTM Payments due by the Corporation to such Fixed Income Clearing Member in respect of its Repurchase Transactions.

(8) Notwithstanding anything to the contrary herein, all payments to be made hereunder to a Fixed Income Clearing Member or to the Corporation in respect of a Net MTM Repo Rate Payment, a Net OCF MTM Payment, and a Net MTM Reversal Requirement which are due and payable at the same Settlement Time, shall be aggregated and netted against each other such that only one net payment shall be made either to a Fixed Income Clearing Member by the Corporation or to the Corporation by a Fixed Income Clearing Member in respect of such amounts, as may be further netted in accordance with, and otherwise subject to, Paragraph A-801(2)(a) and the other provisions of Rule A-8.

(9) (a) In respect of any Repurchase Transaction where the parties have agreed on the Trade Date that Coupon Income will be paid to a Seller as it is received, in each case, any Coupon Income paid by an issuer of Purchased Securities that has been transferred by a Net Seller to the Corporation and by the Corporation to a Net Buyer shall be paid on the Coupon Payment Date by the Net Buyer to the Corporation and by the Corporation to the Net Seller.

(b) In respect of any Repurchase Transaction where the parties have agreed on the Trade Date that Coupon Income will not be paid to a Seller as it is received, any Coupon Income paid by an issuer of Purchased Securities that has been transferred by a Net Seller to the Corporation, and by the Corporation to a Net Buyer, shall be held by the Net Buyer until the applicable Repurchase Date. On such Repurchase Date, the Repurchase Price otherwise payable by a Net Seller to the Corporation and by the Corporation to a Net Buyer in respect of such Repurchase Transaction shall be reduced by the Accrued Coupon Income.

(10) All payment and delivery obligations in respect of Same Day Transactions which are due on the applicable Trade Date will not be settled on a net basis, but will be settled on a gross basis on the applicable Trade Date immediately following the novation of each Same Day Transaction under Subsection D-605(3).

#### **Section D-607 Margin Requirements**

- (1) In respect of all Repurchase Transactions to which a Fixed Income Clearing Member is a party, on each day that is a Business Day, the Corporation shall determine whether, due to changes in the Market Value of the Purchased Securities, additional Margin is required to be delivered by such Fixed Income Clearing Member by the Settlement Time on such Business Day.
- (2) In respect of all Repurchase Transactions to which a Fixed Income Clearing Member is a party, on each day that is a Business Day, the Corporation shall determine whether, due to changes in the Floating Price Rate and taking into account rate volatility and expected liquidation periods as determined in the Corporation's sole discretion, additional Margin is required to be delivered by such Fixed Income Clearing Member by the Settlement Time on such Business Day.
- (3) In respect of all Cash Buy or Sell Trades to which a Fixed Income Clearing Member is a party, on each Business Day commencing on the applicable Trade Date and ending on (but excluding) the applicable Purchase Date, the Corporation shall determine whether, due to changes in the Market Value of the applicable Acceptable Security, additional Margin is required to be delivered by such Fixed Income Clearing Member by the Settlement Time on such Business Day.
- (4) The delivery of Margin under this Section D-607 shall be subject to the netting provisions of Paragraph A-801(2)(d) and to Rule A-7 and the other provisions of Rule A-8.

#### **Section D-608 Substitution**

- (1) In respect of a Repurchase Transaction that is an N-Day Term Repurchase Transaction, where the parties have agreed on the Trade Date that the Repo Party shall have the right, upon providing notice to the Corporation, to substitute Purchased Securities for another Acceptable Security, such Repurchase Transaction may be varied in accordance with the provisions of the Operations Manual by the transfer by the Reverse Repo Party to the Repo Party of Equivalent Securities in exchange for the transfer by the Repo Party to the Reverse Repo Party of New Purchased Securities, being securities having a Market Value at the date of the variation at least equal to the Purchase Price. Such Repurchase Transaction varied under this Section shall thereafter continue in effect as though the Purchased Securities in respect of such Repurchase Transaction consisted of the New Purchased Securities instead of the securities in respect of which Equivalent Securities were transferred to the Repo Party.

## TABLE OF CONTENTS

### SECTIONS:

<b>PREAMBLE AND DEFINITIONS</b>	<b>SECTION 1</b>
<b>TIME FRAMES</b>	<b>SECTION 2</b>
<b>REPORTS</b>	<b>SECTION 3</b>
<b>TRADE PROCESSING</b>	<b>SECTION 4</b>
<b>OPEN POSITIONS</b>	<b>SECTION 5</b>
<b>EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES</b>	<b>SECTION 6</b>
<b>SETTLEMENT</b>	<b>SECTION 7</b>
<b>ADDITIONAL MARGIN PROCESSING</b>	<b>SECTION 8</b>
<b>CLEARING FEES</b>	<b>SECTION 9</b>

### SCHEDULES:

<b>I- RISK MANUAL</b>	<b>SCHEDULE A</b>
<i>I.1- DEFAULT MANUAL</i>	<i>APPENDIX 1</i>
<b>II - DEPOSITORY AGREEMENTS TEMPLATES</b>	<b>SCHEDULE B</b>

#### Examples of Agreements accepted by CDCC

- Depository Agreement
- Safe Custody Agreement
- Escrow Receipt Agreement
- Futures Margin Receipt Agreement
- Depository Agreement between CDCC and a Financial Institution

#### Letters

- Calls Guaranty Letter
- Puts Guaranty Letter
- Futures Margin Receipt
- ~~Letter of Credit~~

## TIME FRAMES

### TIME FRAMES FOR ON-LINE ACCESS

#### ON EVERY BUSINESS DAY

Activity	Deadlines
Payments for overnight settlement	7:45 a.m.
Intra-day margin call	10:30 a.m.
Fixed Income Transactions – Same <del>day-trades</del> <a href="#">Day Transactions</a>	1:30 p.m.
Fixed Income Transactions ( <a href="#">other than Same Day Transactions</a> ) – Revisions for items that settle on current Business Day	1:30 p.m.
Fixed Income Transactions ( <a href="#">other than Same Day Transactions</a> ) – Netting Cut Off Time (Pre-settlement netting commences) (Netted settlement instructions sent to CDS for same day settlement)	1:30 pm.
Intra-day margin call process – Specific Deposits (same-day valuation)	1:30 p.m.
Cash Deposits (Margin and Clearing Fund) – under \$2,000,000 (same day deposit)	2:45 p.m.
Cash Deposits (Margin and Clearing Fund) – of and over \$2,000,000 (2 Business Days notice)	2:45 p.m.
Cash withdrawal requests – under \$2,000,000 (same day withdrawal)	2:45 p.m.
Cash withdrawal requests – of and over \$2,000,000 (2 Business Days notice)	2:45 p.m.
Fixed Income Transactions ( <a href="#">other than Same Day Transactions</a> ) – Netting Cut Off Time (Second pre-settlement netting commences for trades entered between 1:30 p.m. and this second cut-off time) and Cut-Off Time (Netted settlement instructions sent to CDS for same day settlement)	3:30 pm.
All assets deposits (other than cash)	3:30 p.m.
All assets withdrawal requests (other than cash) for same day withdrawal	3:30 p.m.
Failed and partial deliveries – CDCC intervention starts	3:00 p.m.
Failed and partial deliveries – CDCC intervention ends	3:55 p.m.
Specific Deposits (overnight valuation)	3:30 p.m.
OTCI (other than Fixed Income Transactions) – Unmatched entry	4:00 p.m.
Position Transfers	5:25 p.m.

### OPEN POSITIONS

3. Open Position Change. For OTCI Transactions, these will be performed through the Position Transfer function of the CDCC Clearing Application.
4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another on a post trade basis.

The following adjustments are acceptable for Fixed Income Transactions:

1. Same Day Trade Adjustment (T). Same day trade corrections are permitted on all fields except the identity of the opposite Clearing Member. These corrections cannot be made to impact (i) a [Same Day Transaction](#) or (ii) a [Transaction other than a Same Day](#) Transaction that settles that day after Netting Cut-Off Time.
2. Trade Date + 1 Adjustment (T+1). Corrections are permitted on all fields except the identity of the opposite Clearing Members. These corrections cannot be made to impact (i) a [Same Day Transaction](#) or (ii) a [Transaction other than a Same Day](#) Transaction that settles that day after Netting Cut-Off Time.
3. Open Position Change. These will be performed through the Position Transfer function of the CDCC Clearing Application.
4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another on a post trade basis.

#### 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.

## EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

During the FIFO Period, Clearing Members must ensure that they update their declarations on a daily basis before Close of Business.

### FIXED INCOME TRANSACTIONS

CDCC acts as central counterparty to all Fixed Income Transactions that are submitted by Clearing Members to CDCC for clearing. All Fixed Income Transactions shall be submitted for clearing to CDCC through an Acceptable Marketplace or through the CDS trade matching facility routing matched trades to CDCC. As a result of these Transactions being novated to CDCC, CDCC will be either the buyer or the seller of all settlement records that are sent to the Central Securities Depository.

Various batches of settlement records will be sent by CDCC to the Central Securities Depository on a daily basis. ~~Two~~For Transactions other than Same Day Transactions, two settlement records consisting of net settlement instructions will be sent at the first Netting Cut Off Time and at the second Netting Cut Off Time, and any Fixed Income Transaction entered after the second Netting Cut Off Time will be sent to the Central Securities Depository without CDCC performing any pre-settlement netting. For Same Day Transactions, two settlement records consisting of settlement instructions will be sent to the Central Securities Depository on a gross basis throughout the day immediately after each Same Day Transaction is novated to CDCC.

#### Pre-settlement netting process

With respect to each Fixed Income Clearing Member and for Transactions other than Same Day Transactions, CDCC determines the Net Delivery Obligation(s) and/or the Net Payment Obligation as set forth in Subsection D-606(3) of the Rules. Any other delivery and payment obligation between a Clearing Member and CDCC under any Futures contract settling at the relevant Central Securities Depository will be aggregated to and netted against the Net Delivery Obligation(s) and/or the Net Payment Obligation as set forth in paragraphs (b) and (c) of Subsection A-801(2) of the Rules, such that CDCC shall send to the relevant Central Securities Depository netted settlement instructions at relevant Netting Cut Off Times.

#### Delivery

Securities delivery against payment is effected on a DVP basis through the Central Securities Depository.

In the event of a failed or partial delivery, CDCC will take appropriate action in accordance with Section A-804 of the Rules.

CDCC shall determine the net settlement instructions by Clearing Member, CUSIP/ISIN and Settlement Date for all Transactions (other than Same Day Transactions) submitted to CDCC for clearing as of the relevant Netting Cut Off Time. These settlement instructions shall be submitted to the relevant Central Securities Depository on a daily basis and in the form and settlement tranche acceptable to the Central Securities Depository for this purpose. For Same Day Transactions, CDCC shall determine the gross settlement instructions by Clearing Member and the applicable CUSIP/ISIN, and submit such instructions to the relevant Central Securities Depository (in the form and settlement tranche acceptable to such Central Securities Depository) immediately after each Same Day Transactions is novated to CDCC.

In the event of a Failed Delivery for a particular settlement tranche, CDCC shall, on a best efforts basis, attempt to coordinate a partial delivery among those Receivers of Securities for that particular settlement tranche of the relevant Acceptable Security. In the event that no partial settlement is possible, the settlement tranche will be included in the



## SETTLEMENT

### INTRODUCTION

CDCC provides the mechanism for a single cash settlement with respect to amounts due by a Clearing Member to CDCC and by CDCC to such Clearing Member on a daily basis in respect of all Transactions other than Same Day Transactions. Clearing Members are able to make a single payment to CDCC or receive a single payment from CDCC that represents the net value of their purchases, sales, gains and losses and on a monthly basis clearing fees. Additionally, the CDCC Clearing Application incorporates the amounts due from the Clearing Members for Margin and the exercise/assignment Settlement Amounts of cash settled Transactions. Same Day Transactions are not settled on a net basis, but on a gross basis on the applicable Trade Date immediately following the novation of each Same Day Transaction.

Settlement of trading in a given currency is kept separate throughout the clearing procedure. All payments in the Canadian currency to and from CDCC are collected via an irrevocable payment processing system, known as the Large Value Transfer System (LVTS), or any other payment method approved by CDCC. Any US dollar payments are collected via a payment processing system known as Financial Electronic Data Interchange (FEDI). As described in the Risk Manual, the amount of Margin due from the Clearing Member is computed on the basis of that day's Open Positions shown on the relevant report.

### SETTLEMENT COMPUTATION

The calculation of a Clearing Member's Net Daily Settlement amount is based on Transactions, other than Same Day Transactions, (including adjustments, exercises, tenders and assignments) and Margin requirements, and on a monthly basis clearing fees.

The Net Daily Settlement amount for each Clearing Member is determined in the following manner:

- (i) Total Margin required and any additional margin requirements for each account is compared with Margin Deposits.
- (ii) The premiums, gains and losses, exercise/assignment Settlement Amounts, and cash adjustment for each account type (Client Account(s), Firm Account(s) and Multi-Purpose Account(s)) are netted to a single pay or collect figure.
- (iii) If additional margin is required, CDCC will instruct the Clearing Member to facilitate payment to CDCC.
- (iv) Miscellaneous charges such as clearing fees are also included on a monthly basis. In addition, applicable fines or any other amounts due would be collected on a monthly basis.

All cash settlements to CDCC are to be made to CDCC's settlement account at the Bank of Canada.

### FINES

CDCC applies fines with regards to late payments to discourage Clearing Members from being late in the performance of their payment obligations.

## SCHEDULE A RISK MANUAL

- Application of the historical variations of the stress scenarios in order to determine the greatest deficit recorded by the Clearing Members;
- Simulation to determine the stress factor that will be applied at the beginning of the next month; and
- Calculation and verification of the adequacy of the size of the Clearing Fund in relation to the greatest loss recorded under a stress scenario.

The first step consists of calculating, at month end, the Margin intervals of the main derivative instruments.

The second step consists of selecting a stress factor <sup>1</sup>, depending on the level of the Margin intervals in force and the stress factors selected in the previous month. The selected stress factor will be used to calculate the Stress Margins. Once the simulated Stress Margin is calculated, the value of the URR makes it possible to determine the size of the Clearing Fund, according to the above-mentioned formula, and verify whether this size is sufficient to cover the greatest deficits (biggest losses – required Margin deposited) recorded for each stress scenario.

The stress factor <sup>2</sup> will be adjusted in accordance with the simulation results. The stress factor generally is revised each month and depends, in particular, on the Clearing Members' positions (risk profile of each Clearing Member) that vary each day, and the Margin intervals (market conditions) that generally vary each month.

After selecting and setting the stress factor on the first Business Day of the month, the third step is to monitor and control the growth of the Clearing Fund throughout the month. This monitoring essentially serves to ensure that the stress factor set at the beginning of the month was the right choice.

To prevent a negative or zero URR, the stress factor the CDCC uses to determine the size of the Clearing Fund generally does not have a value less than 1, which means that the URR will never be negative.

### 4. FORMS OF COLLATERAL

- The forms of collateral that may be deposited with CDCC are prescribed in Section A-709 of the Rules.

The different forms of collateral are valued by accounting for their potential loss in the event that liquidation is required. Accordingly, the value of the Margin Deposits is discounted in relation to their market value. This discount, commonly called the margin of safety, applies to Valued Securities, ~~and~~ government securities ~~and bankers' acceptances~~, as prescribed in Section A-709 of the Rules.

For the purposes of application of the provisions of Section A-709 of the Rules, CDCC proceeds as follows:

#### Cash

Cash amounts are accepted only in Canadian dollars.

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<sup>1</sup> The stress factor generally has a value of 1.5, 2, 2.5 or 3.

<sup>2</sup> The stress factor generally is adjusted by 50% intervals.

## SCHEDULE A RISK MANUAL

### Letters of Credit and Bankers' Acceptances

~~CDCC regularly values and adjusts the maximum value of letters of credit and bankers' acceptances. For this purpose, it publishes a list of the approved financial institutions with the maximum value CDCC will accept from each financial institution and the pro rata share of its Clearing Members.~~

~~CDCC also requires that a special format be used so that these letters of credit and bankers' acceptances are accepted by it, as set out in Appendix 2 of the Operations Manual.~~

### Government Securities

CDCC accepts Government of Canada and United States Government bonds, in addition to the bonds of certain Canadian provinces, as Margin Deposits. For each issue accepted in advance, a concentration limit equal to \$250 million or 10% of the total issue outstanding, whichever is less, applies to each Clearing Member. Acceptance of the issues is conditional on the availability of a price from a source that CDCC determines to be acceptable and reliable. The government securities accepted as Margin are reviewed by CDCC on a regular basis.

### Calculating the margins of safety for government securities

The margins of safety are calculated based on the following methodology and assumptions:

- Valuation of the market, credit, liquidity and foreign exchange risks based on historical daily returns;
- Confidence interval over 99% obtained by using 3 standard deviations, and the assumption that the bond can be liquidated at a reasonable price in N days. (N will be determined according to the type of products and prevailing market conditions);
- Liquidity risk valued according to the bid-ask spread of the issues (if this spread is unavailable, the liquidation window will be expanded and will depend on market conditions); and
- Bonds of the same issuer and comparable maturities<sup>3</sup>.

Once the quantitative analysis is performed, CDCC reserves the right to increase the margins of safety based on qualitative criteria, such as:

- Comparative analysis of CDCC's margins of safety in relation to the margins of safety of the Bank of Canada;
- Comparative analysis of CDCC's margins of safety in relation to the margins of safety of other clearing houses;
- The congruence of the different margins of safety to the credit rating spreads of the different issuers;
- Any other factor considered relevant.

### Margin of Safety Policy

The margins of safety are reviewed at least semi-annually and may be reviewed on an *ad hoc* basis if any event occurs. The Clearing Members will be informed of these reviews by written notice.

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<sup>3</sup> CDCC classifies an issuer's bonds according to their maturities. Any bonds classified in the same category then have a "similar maturity" and will share the same margin of safety. This includes real return Canadian bonds and inflation-indexed US bonds.

## APPENDIX 1 DEFAULT MANUAL

### 1.3 Declaration of a Suspension

Subject to the discretion and approval of the Board, a Clearing Member may be suspended if it defaults in accordance with Section A-1A04 or any other conditions that the Corporation may deem relevant. These rules relate to Non-Conforming Member situations, but can also be applied to any situation involving a suspension.

Once Board approves a suspension, the Corporation ceases to act on behalf of the Clearing Member.

**Authority:**

The Board has the authority regarding the suspension and lifting of a Clearing Member's suspension.

**Communication:**

The Corporation will notify the other Clearing Members, the regulatory authorities and the other Exchanges upon imposition of a suspension. The Exchanges will be notified by way of a "Memorandum of Understanding" managed by the Chicago Mercantile Exchange if the suspended Clearing Member is also a member of another clearing house.

The President of the Corporation, the Director of Operations and the Director of Risk Management will be called upon to coordinate the actions taken by the Corporation and the supervision of the Clearing Member in difficulty. They will also recommend action to the Board. As mentioned, the Board is ultimately responsible for the suspension of the Clearing Member and the lifting of the suspension.

**Implementation:**

According to Subsection A-1A05(2), the Corporation ceases to act on behalf of the suspended Non-Conforming Member.

As mentioned in Subsection A-1A05(3), the suspension may be total or may be for any function with respect to a particular security or class of securities, with respect to a particular transaction or class of transactions, or with respect to securities or transactions generally.

The Board may lift a Clearing Member's suspension at any time. As mentioned in Section A-1A07, the Clearing Member may appeal its suspension.

When the Clearing Member is suspended, the Corporation will oversee using various measures the management of the suspended Clearing Member's activities.

Once the Board decides on the Clearing Member's status, the Corporation may take several courses of action. The list set out below is neither exhaustive nor in chronological order, and the actions can be adapted by the Corporation according to the circumstances prevailing at the time of a suspension.

- The Clearing Member is notified of its suspension;
- The Corporation will open a liquidating settlement account to manage the positions and the Margin Deposits of the suspended Clearing Member;
- The Corporation may restrict the transactions of the suspended Clearing Member and the Clearing Member's approved participants, if applicable. However, the Corporation may accept transactions from the approved participant if it can execute the transactions with another Clearing Member in good standing;
- The Corporation may seize the Clearing Member's Margin Deposits, and the positions will be transferred to the liquidating settlement account. The Corporation, at its discretion, may send only the net positions to the liquidating settlement account;

## APPENDIX 1 DEFAULT MANUAL

- The Corporation may convert the suspended Clearing Member's deposits into cash in order to cover any loss or amount owed by the defaulting or suspended Clearing Member. The order of liquidation of these deposits is mentioned at the end of this manual;
  - The Corporation may liquidate, transfer or maintain the Clearing Member's positions, depending on the market conditions. The positions may be liquidated directly on the market or among the offers received from Clearing Members contacted in advance by the Corporation, and transmitted to the Corporation regarding the portfolios to be liquidated;
  - For its clients' positions:
    - The client positions will be transferred to a non-defaulting Clearing Member and the clients will be notified under Subsection A-404(2);
    - The Corporation will have the choice of closing out the positions or maintaining them, depending on market conditions, the risk associated with its positions and the market impact of closing the positions;
    - If it decides to close out the positions, the Corporation, to reduce the number of long and/or short contracts, may execute closing transactions on these transactions. The Corporation may also consider it suitable to maintain the positions, hedge them or close them out at a price it deems reasonable;
    - The Corporation must honour the transactions in specified situations and if a position is assigned and/or is subject to delivery.
- For any transfer or liquidation realized by the Corporation, the clients must be notified as soon as possible.
- Impose sanctions, fines or penalties on the Clearing Member.

The Corporation shall report to the Board on a daily basis on the transactions realized for the Clearing Member.

As mentioned previously, the Corporation has access to a liquidating settlement account. The liquidating settlement account is used when necessary to transfer, close out or hedge positions.

- First, Section A-402 specifies that the Margin Deposits will be converted into cash and maintained in the liquidating settlement account;
- ~~The Corporation will initiate the process of conversion of letters of credit into cash;~~
- The Corporation will liquidate the assets held by the suspended Clearing Member in the Clearing Fund;
- If necessary, the Corporation will call for contributions to the Clearing Fund from the other non-defaulting Clearing Members;
- If necessary, the Corporation will call for a second contribution to the Clearing Fund by the other non-defaulting Clearing Members;
- Finally, the Corporation has access to a credit facility, which may cover the resulting losses.

For the actions described above and in the perspective of efficient management of the default process, the Corporation may judge that conversion into cash is not in the Corporation's best interest.

The Corporation shall report to the Board on a daily basis on the transactions realized for the Clearing Member.

**SCHEDULE B  
DEPOSITORY AGREEMENTS**

**Copy of Agreements accepted by the Corporation**

**ARRANGEMENTS FOR THE HOLDING OF SECURITIES BY A DEPOSITORY APPROVED BY  
CANADIAN DERIVATIVES CLEARING CORPORATION**

Canadian Derivatives Clearing Corporation (“CDCC”) guarantees Options and Futures contracts traded on Bourse de Montréal Inc. To ensure that CDCC is able to meet its obligations, CDCC requires that its Clearing Members make deposits to a Clearing Fund and Margin Fund. Clearing Members and investors are permitted to place an Underlying Interest and Underlying Interest Equivalent with a depository approved by CDCC providing that these securities are held to the order of CDCC.

Clearing Members wishing to deposit acceptable securities may do so by depositing the securities with an Approved Depository, which will then issue a Safe Custody Receipt to the order of CDCC.

Financial institutions and investors who wish to write Options providing that they are able to deposit the Underlying Interest with an Approved Depository may do so by the use of Escrow Deposits.

To become an Approved Depository, a financial institution must apply to CDCC. The institution agrees to meet the conditions prescribed by the Corporation. CDCC considers all offices and branches of an approved institution to be Approved Depositories although the institution may place restrictions on its own offices and branches.

The following financial institutions may apply for recognition as an Approved Depository:

- a) a bank to which the Bank Act (Canada) or the Quebec Savings Banks Act (Canada) applies, which has a minimum paid up capital and surplus of \$25,000,000 and for which current audited financial statements are available;
- b) a trust company which is subject to legislation of Canada or any province of Canada similar to the Loan and Trust Corporations Act (Ontario) or the Trust Companies Act (Quebec) which has minimum paid up capital and surplus of \$25,000,000, and for which current audited financial statements are available;
- c) the Corporation and any subsidiary of the Corporation;
- d) securities depositories;
- e) such other institution as the Board may, in its discretion, approve from time to time, provided that in no case shall approval be given to an institution having less than \$25,000,000 paid up capital and surplus, which does not have the required power under its charter or other constituting documents to act as a fiduciary or for which current audited financial statements are not available.

Clearing Members may enter into a safe custody agreement, in a form approved by the Corporation, with an Approved Depository for the safekeeping of securities. Such agreements must include the conditions shown in the sample attached. CDCC does not require copies of Safe Custody Agreements.

Escrow Receipt Agreements are signed between Depositories and institutional and investors. Such agreements must contain the conditions shown in the sample attached. CDCC does not require copies of Escrow Receipt Agreements.

Neither Safe Custody Receipts nor Escrow Receipts require the signature of Clearing Member firms or investors. Such receipts require only the authorized signature of the Approved Depository.

To assist financial institutions in their understanding of the depository system the following documents are attached:

**SCHEDULE B  
DEPOSITORY AGREEMENTS**

1. Excerpts from the CDCC Rules relating to the depository system and providing a guide as to the use of the following documents.
2. Safe Custody Agreement and Receipt.
3. Escrow Receipt Agreement and Receipt.
4. Calls Letter of Guaranty.
5. Puts Guaranty Letter.
6. Futures Margin Receipt Agreement and Receipt.
7. ~~Letter of Credit.~~
8. Suggested form of the Letter of Agreement between the financial institution and CDCC.

**SCHEDULE B  
DEPOSITORY AGREEMENTS**

**DEPSITORY AGREEMENT BETWEEN CDCC AND A FINANCIAL INSTITUTION**

(DEPOSITORY LETTERHEAD)

**DEPOSITORY AGREEMENT - BETWEEN Canadian Derivatives Clearing Corporation and a Financial Institution**

Canadian Derivatives Clearing Corporation  
65 Queen St. West, Suite 700  
Toronto, Ontario M5H 2M5

Gentlemen,

We apply for approval as an Approved Depository for purposes of holding to your order, securities lodged by your Clearing Members and institutional or individual investors in connection with Exchange Traded Options and Futures which are issued by Canadian Derivatives Clearing Corporation

In consideration of your approval, this institution agrees to provide safe custody services on the terms and conditions as follows:

1. Hold in safe custody to your order on behalf of your Clearing Members, institutional or individual investors, securities against which Options have been issued. These equities are termed "underlying securities".
2. Hold in safe custody to your order on behalf of your Clearing Members, institutional or individual investors, securities other than underlying securities which you approve as qualified for Margin purposes or for the Clearing Fund.
3. Issue Safe Custody Receipts in the form approved by you for securities lodged by Clearing Members and issue Escrow Receipts in the form approved by you for securities lodged by institutional and individual investors. Neither of these receipts may be amended as to contents.
4. Sign a Safe Custody Agreement with Clearing Members lodging securities to your order. This Safe Custody Agreement to contain as a minimum all the conditions stipulated in your approved Safe Custody Agreement.
5. Sign an Escrow Agreement with institutional and individual investors lodging securities to your order. This Escrow Agreement to contain, as a minimum, all the conditions stipulated in your approved Escrow Agreement.
6. Hold in safe custody on behalf of investors, but to the order of Canadian Derivatives Clearing Corporation securities deposited in connection with trading in the Canadian Futures markets.
7. Execute a Futures Margin Receipt Agreement in the form approved to Canadian Derivatives Clearing Corporation with all investors wishing to deposit securities in connection with trading in the Canadian Futures market.
8. Issue Futures Margin Receipts in the form approved by you upon the receipt from investors of securities deposited in connection with trading in the Canadian Futures markets. Such receipts may not be amended or supplemented in any way without the written consent of the President of Canadian Derivatives Clearing Corporation as to contents.



**SCHEDULE B  
DEPOSITORY AGREEMENTS**

9. Issue your approved Puts Guaranty Letters in accordance with CDCC's Rules.
10. Issue your approved Special Letters of Guaranty in accordance with CDCC's Rules.
11. (a) Release securities lodged under a Safe Custody Agreement only on the written approval of an authorized signing officer of Canadian Derivatives Clearing Corporation and in accordance with your instructions.  
  
(b) Release securities lodged under an Escrow Agreement to Canadian Derivatives Clearing Corporation on receipt of written instructions from an authorized signing officer of Canadian Derivatives Clearing Corporation in accordance with the terms of the escrow Agreement or release the securities to the Depositor on return of the Escrow Receipt to the Depository.  
  
(c) Release securities lodged under a Futures Margin Receipt Agreement only on the written approval of an authorized signing officer of Canadian Derivatives Clearing Corporation and in strict accordance with your written instructions.
12. Ensure that all securities lodged for safe custody meet the general rules of negotiability for delivery.
13. Receive compensation for our services from Clearing Members, institutions and individual investors as agreed to with them from time to time.
14. This agreement may be terminated by either party on receipt of thirty days notice, in writing, by the other party. In this event, any securities we hold will be dealt with in accordance with your instructions.
15. ~~In addition, this institution will issue on behalf of your Clearing Members, Letters of Credit which comply with CDCC's Rules. Such Letters of Credit may not be amended as to contents.~~
16. We agree to honour any approved Safe Custody Receipt, Escrow Receipt, Futures Margin Receipt, ~~Letter of Guaranty~~ or Letter of ~~Credit~~ Guaranty issued by any office or branch of this institution.

Yours truly,

(Name and title)

**SCHEDULE B  
DEPOSITORY AGREEMENTS**

**~~LETTER OF CREDIT ISSUED BY APPROVED BANK~~**

~~Canadian Derivatives Clearing Corporation~~

~~Toronto, Montréal~~

~~Dear Sirs,~~

\_\_\_\_\_ ~~Revocable Letter of Credit No.~~

\_\_\_\_\_ ~~(Clearing Member Name)~~

~~As arranged with our customer, (Clearing Member's name), we hereby establish a revocable Letter of Credit in your favour in the total amount of (DOLLARS— words and figures) on which you may draw to the extent required to cover Margin owed to you by (Clearing Member's name) on transactions under its terms of Membership in your corporation.~~

~~Drawings under this Letter of Credit shall be in the form of a written demand for payment by Canadian Derivatives Clearing Corporation and should refer to the captioned Letter of Credit number.~~

~~This Letter of Credit will expire at 3 p.m. Eastern Time on March \*, 20xx, or September \*, 20xx\* but it may be revoked at any time prior to expiry, at the sole Option of the bank, on two full Business Days' notice in writing to Canadian Derivatives Clearing Corporation and (Clearing Member's name).~~

\_\_\_\_\_ ~~Yours truly,~~

\_\_\_\_\_ ~~(Name & Title)~~

~~\* All Letters of Credit are to expire on the first bank Business Day of March or September to facilitate expiry control.~~